

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

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In the Matter of: )

COMPLAINT OF TIME WARNER, INC., )  
ET AL., CONCERNING PERIODICAL )  
RATES )

Docket No. C2004-1

VOLUME #1

POSTAL RATE COMMISSION  
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**ORIGINAL**

## POSTAL RATE COMMISSION

In the Matter of: )  
 )  
COMPLAINT OF TIME WARNER, INC., )  
ET AL., CONCERNING PERIODICAL ) Docket No. C2004-1  
RATES )

Room 300  
Postal Rate Commission  
1333 H Street, N.W.  
Washington, D.C.

Volume 1  
Tuesday, June 29, 2004

The above-entitled matter came on for hearing  
pursuant to notice, at 9:30 a.m.

## BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN  
HON. DANA B. COVINGTON, VICE-CHAIRMAN  
HON. RUTH Y. GOLDWAY, COMMISSIONER  
HON. TONY HAMMOND, COMMISSIONER

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P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN OMAS: Good morning. This is a hearing in Docket No. C2004-1 considering the complaint concerning periodical rates filed by Time Warner, Inc.; Conde Nast Publication, a division of Advance Magazine Publishers, Inc.; Newsweek, Inc.; The Reader's Digest Association, Inc.; and TV Guide Magazine Group. For the purposes of this case, these five Complainants will be known collectively as Time Warner, et al.

Again, welcome. I am George Omas, chairman of the Commission. I will be serving as the presiding officer in this case. With me this morning are Vice Chairman Tony Hammond, Commissioner Dana Covington, and Commissioner Ruth Goldway. The reporter in this case is Heritage Reporting Company. Forms for noting appearances are available on the table as you enter the hearing room. If you wish to purchase transcripts, you should see the reporter after today's conference or call (202) 628-4888.

At this point, I would like to ask counsel to identify themselves for the record. Time Warner, et al.

MR. BURZIO: Mr. Chairman, I am John Burzio

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1 representing the Complainants.

2 CHAIRMAN OMAS: Alliance of Nonprofit  
3 Mailers.

4 (No response.)

5 CHAIRMAN OMAS: American Business Media.

6 MR. STRAUS: David Straus.

7 CHAIRMAN OMAS: American Postal Workers  
8 Union, AFL-CIO.

9 (No response.)

10 CHAIRMAN OMAS: Association of American  
11 Publishers.

12 (No response.)

13 CHAIRMAN OMAS: Dow Jones & Company, Inc.

14 MR. NEELY: Bruce Neely of the firm of  
15 LeBoeuf, Lamb, Greene & MacRae.

16 CHAIRMAN OMAS: Herst Communications, Inc.

17 (No response.)

18 CHAIRMAN OMAS: Magazine Publishers of  
19 America, Inc.

20 MR. MYERS: Pierce Myers.

21 CHAIRMAN OMAS: Mail Order Association of  
22 America.

23 (No response.)

24 CHAIRMAN OMAS: McGraw Hill Companies.

25 MR. BERGIN: Tim Bergin.

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1 CHAIRMAN OMAS: National Newspaper  
2 Association.

3 (No response.)

4 CHAIRMAN OMAS: Newspaper Association of  
5 America.

6 (No response.)

7 CHAIRMAN OMAS: Office of the Consumer  
8 Advocate.

9 MS. DREIFUSS: Mr. Chairman, I'm Shelley  
10 Dreifuss from the Office of the Consumer Advocate.  
11 Good morning.

12 CHAIRMAN OMAS: Good morning. Pitney Bowes,  
13 Inc.

14 (No response.)

15 CHAIRMAN OMAS: David B. Popkin.

16 (No response.)

17 CHAIRMAN OMAS: United States Postal  
18 Service.

19 MR. RUBIN: David Rubin for the Postal  
20 Service.

21 CHAIRMAN OMAS: U.S. News and World Report.

22 (No response.)

23 CHAIRMAN OMAS: Val-Pak Dealers Association,  
24 Inc.

25 (No response.)

1 CHAIRMAN OMAS: Val-Pak Direct Marketing  
2 Systems, Inc.

3 (No response.)

4 CHAIRMAN OMAS: Are there any other  
5 intervenors that I've missed?

6 (No response.)

7 CHAIRMAN OMAS: This morning, we are  
8 scheduled to hear the testimony of Time Warner, et  
9 al., Halstein Stralberg. Presiding Officer's Ruling  
10 C2004-1/3 indicates that parties unable to cross-  
11 examine Witness Stralberg on discovery responses  
12 provided after June 22 would be given the opportunity  
13 to ask that Witness Stralberg reappear to respond to  
14 questions related to those answers. I recognize that  
15 Witness Stralberg provided a number of written  
16 discovery responses just yesterday, and counsel may  
17 not have had enough time to thoroughly digest the  
18 material. Nonetheless, I am hopeful that Witness  
19 Stralberg would not have to be recalled.

20 Participants will be given until Tuesday,  
21 July 6th, to file motions to have Witness Stralberg  
22 reappear. Any such motion will be expected to  
23 identify the specific discovery responses that are the  
24 basis for the additional oral cross-examination. Oral  
25 cross-examination will be strictly limited to the

1 questions generated by the specific responses.

2 There have been a number of institutional  
3 discovery requests and responses. I am establishing  
4 Wednesday, July 7th, as the date for designations of  
5 institutional responses. Any participant requiring  
6 the appearance of a witness capable of clarifying an  
7 institutional response shall provide a written motion  
8 to that effect explaining why the appearance of a  
9 sponsor witness is necessary. Any such motion also  
10 should be submitted by July 7th.

11 At this point, does anyone have a procedural  
12 matter to discuss before we begin hearing testimony  
13 today?

14 MR. RUBIN: Yes. David Rubin for the Postal  
15 Service. Could we also, in the alternative, request  
16 written follow-up of Witness Stralberg based on recent  
17 responses if we thought that would be a more effective  
18 way of following up?

19 CHAIRMAN OMAS: Yes.

20 Mr. Burzio, will you call your first  
21 witness?

22 MR. BURZIO: Thank you, Mr. Chairman. Time  
23 Warner, et al. calls Halstein Stralberg.

24 CHAIRMAN OMAS: Mr. Stralberg, would you  
25 please stand and raise your right hand?

1           Whereupon,

2                       HALSTEIN STRALBERG

3           having been duly sworn, was called as a  
4   witness and was examined and testified as follows:

5           CHAIRMAN OMAS: Thank you. Please be  
6   seated.

7                       DIRECT EXAMINATION

8           BY MR. BURZIO:

9           Q     Please state your name and occupation.

10          A     My name is Halstein Stralberg. I'm a  
11   consultant to Time, Inc.

12          Q     Do you have with you at the witness stand a  
13   document that has been marked for identification as TW  
14   et al.-T-2 and captioned "Direct Testimony of Halstein  
15   Stralberg"?

16          A     Yes, I do.

17          Q     Does that document contain the testimony you  
18   wish to give in this proceeding?

19          A     Yes, it does.

20          Q     Was it prepared by you?

21          A     It was prepared by me.

22          Q     Do you have any corrections or additions?

23          A     No.

24          Q     If you were to testify orally today, would  
25   your oral testimony be the same as contained in this

1 document?

2 A Yes.

3 MR. BURZIO: Mr. Chairman, I move the  
4 admission into evidence of TW et al.-T-2 and request  
5 that it be transcribed in the record.

6 CHAIRMAN OMAS: Is there any objection?

7 (No response.)

8 CHAIRMAN OMAS: Hearing none, I will direct  
9 counsel to provide the reporter with two copies of the  
10 corrected direct testimony of Halstein Stralberg. The  
11 testimony is received and will be transcribed into  
12 evidence.

13 (The document, previously  
14 identified as Exhibit No. TW  
15 et al.-T-2, was received in  
16 evidence.)

17 //

18 //

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D. C. 20268-0001

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COMPLAINT OF TIME WARNER INC. ET AL.  
CONCERNING PERIODICALS RATES

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Docket No. C2004-1

DIRECT TESTIMONY OF  
HALSTEIN STRALBERG  
ON BEHALF OF  
TIME WARNER INC.,  
CONDÉ NAST PUBLICATIONS, A DIVISION  
OF ADVANCED MAGAZINE PUBLISHERS INC.,  
NEWSWEEK, INC.,  
THE READER'S DIGEST ASSOCIATION, INC.  
AND  
TV GUIDE MAGAZINE GROUP, INC.  
CONCERNING PERIODICALS COSTS

April 26, 2004

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**INTRODUCTORY NOTE: CHANGES TO PROFERRED TESTIMONY OF 1/12/04--  
MAIL FLOW MODEL CORRECTIONS**

Since the filing of my original proffered testimony as an attachment to the Time Warner et al. Complaint on January 12, I have become aware of the need for two corrections in the mail flow model I used to estimate mail processing unit costs. Both concern my adaptation of the R2001-1 Periodicals mail flow model (LR-J-61) to replace the LR-I-332's use of the corresponding R2000-1 model (LR-I-90).

The overall impact of the two corrections on estimated unit costs and on the rates proposed by witness Mitchell is small. However, the corrections do increase the cost differences between SCF/3-digit presort and ADC presort and between (AFSM-100) machinable and non-machinable flats. The corrections are described briefly below.

The first correction is necessary because the original model omits some 3-digit piece sorting performed on pieces with an original ADC bundle presort level and some ADC and 3-digit sorting performed on pieces with an original MADC bundle presort, resulting in an understatement of the costs of mail with ADC and MADC presort.

The second correction concerns the productivity rate assumed for manual incoming secondary flats piece sorting. The assumptions used by the Postal Service in R2000-1 were very different from those used in R2001-1. The R2000-1 model assumed a manual productivity of 846 pieces per workhour for incoming secondary sort performed in non-FSM facilities, including stations, branches and associate offices, where a large portion of incoming secondary flat sorting is still performed. It assumed a much lower rate, 457 per workhour, for manual incoming secondary performed in FSM facilities. Furthermore, it assumed that only 26.1% of manual incoming secondary is performed in FSM-facilities. The R2001-1 model, on the other hand, made no similar distinction, assuming instead that all manual incoming secondary flats sorting is performed at an average productivity rate of only 422 pieces per workhour, as indicated by the FY2000

1 MODS data.<sup>1</sup>

2 Since manual incoming secondary is a high volume operation, the two sets of  
3 assumptions lead to very different estimates of total costs. Noticing the large  
4 difference, I experimented with different values of the assumed manual rate. The file I  
5 used in my original analysis for this testimony had a value of 670 pieces per workhour  
6 for manual incoming secondary flats sorting. That is close to a weighted average of the  
7 values used in R2000-1 and results in total Periodicals piece sorting costs that are  
8 close to the costs indicated by CRA data for flats piece sorting operations, as explained  
9 in my testimony.

10 However, in order to be consistent with the Postal Service's mail flow and cost  
11 assumptions in R2001-1, the productivity rate for manual incoming secondary should be  
12 reduced to 422. That has the effect of sharply increasing the estimated total piece  
13 sorting costs. Whereas my original analysis concluded that there was no need to apply  
14 a CRA adjustment to piece sorting costs, it now becomes necessary to use one for  
15 , piece sorting costs as well as bundle, sack and pallet costs. Applying the appropriate  
16 adjustment factor, as is done in the revised version of spreadsheet CRAAdjust.xls,  
17 results in the unit cost estimates shown in my revised Exhibit B.<sup>2</sup>

18 Even allowing for changes in the mail processing environment, the assumptions  
19 regarding manual incoming secondary productivity used in R2000-1 and R2001-1 are  
20 so different that it would appear they cannot both be true. To my knowledge, there has  
21 been no national study to determine the true productivity rate for manual flats sorting  
22 that is performed in associate offices, stations and branches. Given that I had more

---

<sup>1</sup> Under the volume variability assumptions used by the in R2000-1, the two marginal productivity rates for manual incoming secondary become respectively 908 and 592 pieces per workhour. Applying the Postal Service R2001-1 volume variability assumption gives a marginal productivity rate of 594 pieces per workhour in the Postal Service's R2001-1 model. My model, however, uses PRC volume variability assumptions.

<sup>2</sup> The modified CRA adjustment factors, as shown in spreadsheet CRAAdjust.xls, are 0.7825 for piece sorting and 0.8687 for all other modeled mail processing operations.

1 success in matching the CRA costs at piece operations by assuming the higher manual  
2 rate, combined with the fact that the MODS productivity (FY2000) of 422 pieces per  
3 workhour reflects only the manual sorting performed at the plants, it seems likely that  
4 manual sorting generally is performed much faster in delivery unit offices (AO's and  
5 stations/branches) than in the big processing plants. Nevertheless, consistency with  
6 R2001-1 assumptions requires use of the lower manual rate.

7 These two corrections are reflected in a revised version of my Exhibit B, containing  
8 estimated mail processing unit costs. They did not require any additional changes to  
9 the proffered testimony filed on January 12, and I have made no other changes to that  
10 testimony. A revised version of the Excel spreadsheets in TW et al. LR-1 is being filed  
11 simultaneously with this testimony.

## AUTOBIOGRAPHICAL SKETCH

My name is Halstein Stralberg. I am a consultant to Time Warner on issues related to distribution of magazines through the postal system. Until June 1999 I was a principal at Universal Analytics, Inc. (UAI), a management consulting firm in Torrance, California, and manager of its Operations Research Division.

My academic background is in mathematics, with a master's degree from the University of Oslo, Norway in 1963. I received a bachelor's degree in mathematics, physics and astronomy at the University of Oslo in 1961. Most of my professional experience is in the area of management science and operations research. I have directed and performed 30 years of postal related studies as well as management studies for other clients in government and private industry, including production scheduling and control, corporate planning and finance, investment analysis, design and optimization of transportation systems, health care and computer system design.

I have previously presented 19 pieces of testimony before this Commission on a variety of postal costing and rate design issues: two rebuttal testimonies on behalf of the Postal Service in Docket R80-1; four testimonies on behalf of Time Inc. in R87-1; four on behalf of Time Warner Inc. in R90-1; one in MC91-3; two in R94-1; two in MC95-1; two in R97-1 and two in R2000-1.

Since 1987 most of my work has been in support of Time Warner's participation in postal rate cases. Besides presentation of testimony, I have advised Time Warner on a variety of postal issues and directed the development of computer models for analysis of postal costs and rate design. I participated actively as a member of the joint industry/USPS Periodicals Review Team whose report and recommendations are included in LR-I-193 of Docket No. R2000-1, as an industry representative in an MTAC data collection on bundle breakage (LR-I-297) and recently in a USPS/Time Warner task force to evaluate the feasibility of tailoring the preparation of Periodicals mailings to the processing methods and sort schemes used in each postal facility.

From 1973 until 1987, I directed UAI's efforts under several contracts with the U.S. Postal Service. My activities under these contracts included:

- Design and development of the Mail Processing Cost Model (MPCM), a weekly staffing and scheduling computer program for postal facilities, with an annualized extension (AMPCM), using linear programming for long term staffing planning in a postal facility.

- 1       • An extensive data collection in 18 postal facilities designed to (1) establish a  
2       Postal Service data base on mail arrival rates and mail attributes affecting costs  
3       (subclass, shape, indicia, presort, container method, etc.), and (2) develop the  
4       model input data needed to apply MPCM for each facility.
- 5       • The "Study of Commercial Mailing Programs" under the Long Range  
6       Classification Study Program. This study involved a detailed cost and market  
7       evaluation of several rate and classification concepts, including various presort  
8       concepts, destinating SCF discounts for second class, plant loading and  
9       barcoding of preprinted envelopes.
- 10      • A BMC cost analysis which resulted in the establishment of the Inter/Intra-BMC  
11      parcel post rate differential in R80-1.
- 12      • Numerous simulation studies requested by USPS management.

13   My two testimonies on behalf of the Postal Service in R80-1 addressed the Intra/Inter  
14   BMC cost analysis and Dr. Merewitz's use of MPCM to analyze peak load costs.

15   I conducted a number of classes and seminars on the use of MPCM for Postal Service  
16   employees and interested outside parties. I have made extensive visits, including many  
17   multiple repeat visits, to over 40 USPS mail processing facilities and have observed all  
18   aspects of mail processing operations on all tours, as well as methods of mail  
19   collection, acceptance and transportation, and various ongoing postal data collection  
20   systems. I estimate that in total I have spent more than 2000 hours on site in postal  
21   facilities.

22   Besides my postal activities, I directed a study for the department of Health and Human  
23   Services of the impact of alternative regulatory policies used by state Medicaid  
24   agencies, which included an extensive data gathering effort and multiple regression  
25   analysis to determine factors influencing utilization and cost in the Medicaid program.

26   Before joining UAI I was an Operations Research Analyst at the Service Bureau  
27   Corporation (IBM), where I performed several large-scale simulation studies, including a  
28   design analysis of the Dallas/Fort Worth Airport's people mover system and simulations  
29   to improve design and response time in large interactive computer systems.

30   As Operations Research Analyst at Norsk Hydro, a Norwegian petrochemical company,  
31   my work included design, development and implementation of factory production  
32   scheduling systems, studies of transportation and distribution systems and risk analysis  
33   of investment decisions.

34   For three years I was assistant Professor of Mathematics at the University of Oslo.

**I. PURPOSE OF TESTIMONY**

My testimony develops a set of unit costs and corresponding volumes for Outside County Periodicals flats, flats bundles and containers that will make possible a more cost based rate design than the one in effect today. I believe rates developed on the basis of this information, as described in the testimony of witness Mitchell, will give both large and small mailers incentives to improve their mail preparation and entry practices, thus reducing Periodicals postal costs.

The costs and volumes I develop are consistent with PRC costing methodology and with the TY03 after rates assumptions used by the Commission in its R2001-1 Opinion and Recommended Decision. This allows witness Mitchell to develop a revenue neutral restructuring of Periodicals rates.

My analysis is based on R2001-1 costs because those are the latest costs of record. Use of more recent cost and volume data, which the Postal Service may already possess, may change my unit cost estimates somewhat, but I do not believe it would substantially alter the major conclusion arrived at both by myself and by Mitchell, namely that a cost based restructuring of Periodicals rates today is both feasible and highly desirable.

**II. SUMMARY**

To develop unit costs I use a methodology similar to that employed by the Postal Service to develop the model described in USPS LR-I-332 from Docket No. R2000-1. The mail flow spreadsheets included with this testimony look similar to those used in LR-I-332. My estimates are updated, however, to reflect the wage rates, piggyback factors, productivity rates, mail flow assumptions and PRC costing methodology used to develop TY03 costs in R2001-1. And whereas LR-I-332 identified all normal flats processing costs as being either per-pallet, per-sack, per-bundle or per-piece costs, I show that some of these costs are actually related to the weight, or bulk, of the mail and are more appropriately described as per-pound costs. Section V describes all modifications I made to the original model assumptions.

1 My results are summarized in Exhibits A and B. Exhibit A contains an expanded set of  
 2 TY03 after rates billing determinants for Outside County Periodicals, corresponding to  
 3 the mail categories for which I have estimated unit costs. Table A1 shows the  
 4 estimated number of sacks and pallets per container presort level and entry point.  
 5 Table A2 shows the number of packages (bundles) by bundle presort level, container  
 6 type (sack or pallet) and container presort level, and Table A3 shows the number of  
 7 Outside County flats pieces by container and bundle presort level, container type,  
 8 machinability and whether or not the pieces are pre-barcoded.<sup>3</sup> Exhibit B contains the  
 9 corresponding mail processing unit costs. For example, Table B1 contains the  
 10 estimated TY03 unit costs for each category of sacks and pallets in Table A1, etc.

11 Section III below discusses the major cost causing characteristics of a Periodicals flats  
 12 mailing and explains why it is important that postal rates recognize these characteristics  
 13 and their impact on USPS costs. I also explain why the flawed assumption inherent in  
 14 today's rate design, namely that costs depend only on the number of pieces and the  
 15 number of pounds, combined with other constraints, sends many incorrect signals to  
 16 the mailers, resulting in Periodicals postal costs being much higher than they need to  
 17 be.

18 Section IV describes the development of an expanded set of Periodicals billing  
 19 determinants used by Mitchell. Section V describes the development of unit costs.  
 20 Library reference TW et al. 1 contains the various spreadsheets used in my analysis.

---

<sup>3</sup> I use the term "presort level" in this testimony to refer both to the arrangement of individual pieces within a mailer prepared bundle (package) and the arrangement of bundles (packages) in a mailer prepared sack or pallet. Generally, a finer presort reduces postal costs by allowing the mail to bypass some sorting operations and in some cases to bypass intermediate facilities. DMM section M011.1.2 defines all presort levels recognized by the Postal Service. The ones relevant to my testimony are: carrier route, 5-digit, 3-digit/SCF, ADC and Mixed ADC (MADC). I have combined the 3-digit and SCF presort levels into one category because the cost differential between them is small and in many cases zero, and because the LR-I-332 model in fact assigns exactly the same costs to the two.

### III. COST CHARACTERISTICS OF PERIODICALS FLATS MAILINGS

Traditional rate design implicitly assumes that Periodicals costs are incurred on either a per-piece or a per-pound basis. Considerable arguments have been made before this Commission regarding which costs are piece related and which are pound related. However, as explained in the following, some costs are neither.

Periodicals flats are prepared by mailers in presorted bundles and usually placed either in sacks or on pallets provided by the Postal Service. The Postal Service must perform various handlings on these sacks/pallets, often including transfers through multiple facilities, until they are emptied of their contents and can be recycled for further use. The Postal Service then must handle the bundles that were emptied out of the sacks and pallets, until the bundles have been opened – after which it must handle the individual pieces that were inside the bundles through additional sorting and delivery operations.

Costs incurred handling sacks and pallets are better thought of as per-sack and per-pallet costs than as per-piece or per-pound costs. Similarly, costs incurred in sorting bundles are best thought of as per-bundle costs. Recognizing the characteristics of sacks, pallets and bundles that affect postal costs, as well as the characteristics of individual pieces that affect costs, and pricing these items in accordance with costs will remove anomalies in the current rate structure and provide mailers with much better pricing signals.

This section discusses the Periodicals costs that are associated with sacks, pallets, bundles and pieces, as well as costs that are mostly weight related.

#### 1. Sacks

Sack related costs include the cost of sorting sacks, either on mechanized sack sorters or manually, loading and unloading sacks from trucks, moving them across postal platforms and workroom floors, opening sacks, shaking out their contents, putting aside empty sacks and recycling them for further use by mailers. Generally, these costs depend on the number of sacks being handled, each sack's presort level and where it is



entered into the system relative to its final destination. The number of pieces inside a sack has little impact on the cost of handling it.

A cost based rate design should include per-sack charges that are consistent with the actual costs of handling sacks, which generally vary from \$1 to over \$3 each. Such charges would, in my opinion, quickly reduce the fairly widespread practice among Periodicals mailers of sending sacks with only one or a few pieces in them through the postal system. A cost based sack charge may not seem unreasonable if the sack contains 40 pieces, but it would present a strong disincentive to mailing a sack with only one piece.<sup>4</sup>

## 2. Pallets

Pallets incur costs as they are moved on or off trucks, across platforms and across the workroom floor to the bundle sorting area where the pallet's contents are distributed. If the bundle sorting operation is mechanized, the pallet is "dumped" by a mechanized pallet dumper. Finally, empty pallets, like empty sacks, are recycled for additional use by mailers.

Use of pallets generally causes fewer costs than if the flats are entered in sacks. And pallets with finer presort (e.g., 5-digit pallets) cause fewer bundle handling costs than less presorted pallets. But because mailers may have a limited quantity of mail to a given 5-digit or 3-digit zone, pallets with finer presort may also end up having less volume. To avoid having to handle too many small pallets, the Postal Service imposes minimum weight requirements. For destination entered pallets, the current minimum is 250 pounds. But some facility managers have indicated that they would be happy to

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<sup>4</sup> With appropriate pricing, there is no need to prohibit this practice. A mailer may have a good reason (e.g., service related) for mailing a single piece or a few pieces in a separate sack. If given correct price signals that require them to bear the costs of choosing such practices, however, chances are that mailers will avoid such practices in almost all cases. It is important to note that the practice of mailing sacks with only one or two pieces in them is not at all limited to small mailers. In fact, I have become aware that it occurs frequently among very large mailers, including Time Inc.

1 receive 5-digit pallets containing considerably fewer than 250 pounds, because such  
 2 pallets can be transferred directly to the DDU and require much less bundle sorting than  
 3 3-digit or ADC pallets.

4 In this case I present per-bundle costs that vary with the presort level of the pallet the  
 5 bundles come on, and witness Mitchell proposes that bundles be priced accordingly.  
 6 That by itself could lead to many more pallets than there are today, especially in the  
 7 absence of pallet minimums, as mailers would find it advantageous to split current 3-  
 8 digit pallets into smaller 5-digit pallets and current ADC pallets into smaller 3-digit or  
 9 SCF pallets. But the proposal also includes pricing the pallets themselves in  
 10 accordance with actual costs, which again vary with the pallet's presort level and where  
 11 it is entered into the postal system. This way the mailers themselves will be able to  
 12 figure out how far to go in producing pallets with finer presort, by weighing the higher  
 13 price of using more smaller pallets against the lower bundle prices that result from finer  
 14 pallet presort levels.

### 3. Bundles

16 The Postal Service's current mail flow models, which are used to estimate cost savings  
 17 produced by presortation and pre-barcoding, do recognize certain costs associated with  
 18 bundle sorting. But they translate those costs into per-piece costs, dividing them by the  
 19 average number of pieces per bundle. As a result, even if these models are otherwise  
 20 accurate, the presort savings they calculate are accurate only for bundles with the  
 21 average number of pieces, and even then actual savings from putting pieces in a  
 22 presorted bundle depend on whether those pieces would have been sorted by an  
 23 AFSM-100 machine or manually had they not been in the bundle, on whether they are  
 24 pre-barcoded or not, etc.

25 To avoid receiving bundles with too few pieces, where the added costs of handling the  
 26 bundle might outweigh the piece sorting costs avoided by the bundling, the Postal  
 27 Service establishes minimum numbers of pieces that presorted bundles must contain.

1 The current bundle minimums are six pieces for Periodicals flats and ten for Standard flats. Postal officials have been known to argue that both minimums should be raised.<sup>5</sup>

3 But whatever new bundle minimum is imposed, the one thing we can be sure of is that  
4 it will not be optimal for all circumstances. The “optimal” bundle minimum may depend  
5 on whether the pieces are machinable, whether they are pre-barcoded, presort level of  
6 the bundle, whether it is entered on a pallet or in a sack, and other factors.<sup>6</sup>

7 I believe therefore that the Postal Service would be better off simplifying its ever more  
8 complicated mail preparation regulations, abandoning current minimums and simply  
9 letting mailers figure out how many bundles to make by pricing both bundles and pieces  
10 in accordance with actual costs. To assist in the development of such a pricing  
11 structure, I have estimated the per-bundle costs for each combination of bundle and  
12 container presort level, as well as the piece handling costs for different presort levels  
13 and piece characteristics.

14 In reviewing the bundle related costs indicated by the model, I noticed that many of  
15 those costs in fact do not depend on the number of bundles but rather on the bulk of  
16 the bundles. Since bulk is more closely correlated with weight, I believe such costs are  
17 more appropriately called weight related. These “weight related” bundle costs occur  
18 when a hamper or other USPS container, after being filled with bundles in a bundle  
19 sorting operation, is moved either to another bundle sort or to a piece sorting operation,  
20 in either the same facility or a different facility. As in LR-I-332, my model assumes that  
21 such USPS containers hold an average of 52.45 bundles each, and uses this to  
22 translate the costs of moving the containers into “per-bundle” costs. However, these

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<sup>5</sup> In a December 11, 2003 Federal Register notice, 68 Fed. Reg. 69066, the Postal Service proposes raising to 15 the minimum number of pieces for certain categories of 5-digit Standard flats bundles.

<sup>6</sup> By “optimal bundle minimum” I mean the minimum number of pieces at which making up an extra bundle would save postal costs. Assume, for example, that a 5-digit bundle containing 30 pieces is placed on a 3-digit pallet. Some of the 30 pieces are to the same carrier route. How many pieces must there be to the same carrier route before it is worthwhile making a separate carrier route bundle? The answer to this question depends on a number of factors, including sorting technology and whether the pieces have a barcode.

1 postal containers are generally moved when they are full. They will fill up faster if the  
2 flats are thick or there are many flats per bundle. These costs are therefore primarily  
3 determined by cube, which tends to vary in closer proportion with weight than with the  
4 number of pieces or bundles, and so it is more appropriate to classify them as per-  
5 pound costs.

6 In the AFSM-100 environment, non-carrier route flats bundles are taken to a "prepping"  
7 operation where the bundles are broken and pieces placed on "ergo carts" in a manner  
8 designed to facilitate subsequent loading into the AFSM-100. This operation is  
9 currently referred to as MODS operation 035. It tends to be performed also for flats that  
10 will not be sorted on the AFSM-100. In the pre-AFSM-100 environment, the process of  
11 cutting flats bundles and preparing the pieces for sorting was often integrated into the  
12 piece sorting operations and indistinguishable from piece sorting.

13 I unfortunately do not have access to any productivity estimates for the MODS 035  
14 operation. Nor was this operation or any equivalent operation included in the LR-I-332  
15 model from which I have developed my current model of flats mail flows. Nor is there  
16 any reference to it in the flats mail flow model described in LR-J-61, which was used in  
17 R2001-1 to set flats presort and automation discounts. The bundle unit costs shown in  
18 Exhibit B therefore do not include the 035 costs. Had I been able to include those  
19 costs, the costs of the non-carrier route flats categories in Exhibit B would have been  
20 higher relative to the carrier route categories.

#### 21 4. Flats Pieces

22 Current Periodicals rate design takes into account whether non-carrier route flats are  
23 pre-barcoded. It also recognizes four presort levels (carrier route, 5-digit, 3-digit and  
24 basic). Not recognized is machinability of the mail pieces, even though machinability  
25 has become much more important with the advent of the AFSM-100. In this testimony,  
26 "machinable" refers to machinability on an AFSM-100. Magazines thicker than 3/4 inch  
27 would, for example, be considered non-machinable.

28 The presort rate levels currently recognized are a confusing mix, referring sometimes to

the presort level of a bundle and sometimes to the presort level of the container the bundle is presented in. For palletized flats, the presort rate level is defined by the bundle presort; the presort level of the pallet is ignored, even though it has a major impact on postal costs. For sacked mail, the presort rate level is defined by the bundle presort for barcoded flats and by the sack presort for non-barcoded flats.<sup>7</sup>

It leads to much more cost based rates, and is conceptually simpler, to recognize all meaningful combinations of bundle and container presort level, container type, machinability and pre-barcoding. Tables A3 and B3 illustrate all the categories of piece characteristics for which I am presenting estimates of volumes and unit costs.<sup>8</sup>

The piece handling costs I estimate refer only to mail processing. Additional per-piece costs are incurred in the delivery function. I also have not attempted to model costs of forwarding or other handlings that do not occur in the normal flow of most flats through the postal system. Note that costs related to bundle sorting are not included in my piece related costs.

LR-I-332 also estimates the costs of bundle breakage and presents them as per-bundle costs. I have defined them instead as per-piece costs. Most of the extra costs incurred when a bundle breaks prematurely are due to the additional piece sorting required for the previously bundled pieces. Since these costs are proportional to the number of

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<sup>7</sup> The inconsistent definitions of presort rate categories have led to some striking rate anomalies. Here is, perhaps, one of the worst. Consider a 5-digit flats bundle in an ADC sack. If the flats are pre-barcoded, their presort level is determined by the bundle presort, i.e., it is 5-digit and they pay the 5-digit automation rate (22.6 cents/piece). If the flats are not barcoded, their presort level is determined by the sack presort, i.e., it is basic, and they pay the non-automation basic rate of 37.3 cents/piece. Their reward for barcoding is therefore 14.7 cents/piece, even though the Commission approved a barcode discount for basic flats of only 4.8 cents/piece. Moreover, the actual cost differential between barcoded and non-barcoded pieces in this example is 0.3 cents if the pieces are non-machinable, and about 1.3 cents if they are machinable. See Table B3a.

<sup>8</sup> These categories were present also in the Postal Service's R2000-1 and R2001-1 mail flow models. But in both cases the USPS witnesses combined the more detailed set of categories into the much more limited number representing current presort/automation rate levels.

1 pieces that were in the broken bundles, rather than the number of broken bundles, I  
 2 consider them to be per-piece costs.

3 Some of the per-piece costs calculated by my model, and in LR-I-332, are incurred  
 4 while moving pieces between piece sorting operations and to the DDU. These  
 5 movements typically involve rolling containers that are filled up with flats trays and  
 6 moved when they are full. Since thick flats fill up trays and rolling containers faster than  
 7 thin flats, these costs are more appropriately viewed as weight related. Exhibit B  
 8 identifies these weight related "per-piece" costs separately. Witness Mitchell does not  
 9 use them in his design of piece rates, since they are more appropriately covered by  
 10 pound rates.

#### 11 5. Weight Related Costs

12 Which Periodicals costs are piece related and which are pound related has been  
 13 debated for a long time and never fully resolved. Since R87-1 the Commission has  
 14 required 60% of regular rate Periodicals revenue to come from the piece rates, based  
 15 on an assumption that approximately 60% of the costs are piece related.<sup>9</sup>

16 Having concluded that some costs are related neither to pieces nor pounds but rather  
 17 to the sacks, pallets and bundles into which a flats mailing is prepared, and that a  
 18 portion of the postal revenues should be derived from charges on these items, it is  
 19 necessary to determine how the remaining costs can most properly be divided between  
 20 pieces and pounds.

21 First, it should be noted that, for Periodicals, bulk (measured in cubic feet) is probably  
 22 much more of a cost driver than weight. It is the bulk that consumes space on trucks  
 23 and in trays, hampers and other containers used to transport these flats. The faster  
 24 that trays, hampers and other containers are filled up, the sooner they must be

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<sup>9</sup> Since the merger of the three Outside County subclasses in Docket No. R2000-1, the assumption that 60% of costs are piece related is applied to the combined subclass, whereas before it was applied to regular rate Periodicals.

removed and replaced. However, since density (weight/cube) is fairly uniform, at least among magazines, it is reasonable to continue to treat pounds, rather than cubic feet, as a major cost driver.

Transportation costs are generally considered pound related. Delivery costs clearly are affected both by weight and by the number of pieces delivered. Regarding mail processing costs, I pointed out in the two preceding sections that more than half of the costs that the mail flow model identifies as per-bundle costs would more appropriately be considered weight related, and that a portion of the per-piece costs identified by the model are also, strictly speaking, more weight than piece related.

Section V.6 presents an analysis that indicates approximately 30% of the Outside County revenues should come from pound rates when the rates include cost based per-sack, per-pallet and per-bundle charges.

#### **IV VOLUME ESTIMATES**

This section explains the development of estimates of TY03 after rates volumes of Outside County sacks, pallets, bundles and pieces, as summarized in Exhibit A. The main data source used to develop the piece volumes in Table A3, the bundle volumes in Table A2 and the number of containers by container type and presort level, is the mail characteristics study reported in USPS LR-I-87, which USPS witnesses also used both in R2000-1 and R2001-1. To estimate numbers of sacks and pallets by entry point as well as presort level, I relied on the entry point study described in LR-J-114 and used by USPS witnesses in Docket No. R2001-1.

I normalized the LR-I-87 survey results to be consistent with the TY03 after rates billing determinants used by the Commission in its R2001-1 rate design. After letter shaped pieces are separated out, the process used is essentially the same as that applied by witness Miller (USPS-T-24, LR-J-61) in Docket No. R2001-1. It can be described (though Miller did not explicitly express it this way) as using a set of multipliers that relate billing determinant volumes of existing presort/automation rate categories to the corresponding volumes computed from unadjusted survey results. I was able to extend

the use of these multipliers to bundle and container counts from the mail characteristics survey.

The process outlined above was performed separately for regular rate and nonprofit Periodicals. The results were then extrapolated to also include Classroom publications. Finally, to produce the container volumes in Table A1, my estimates of sacks and pallets by presort level, obtained in this manner, were used to normalize the container counts by entry point obtained from LR-J-114.

Spreadsheet 'VolumesTY03AR.xls' performs the volume estimates summarized above. The following describes my methodology in more detail.

#### 1. Billing Determinants For Non-Letters

Because witness Mitchell handles the small volume of Periodicals that are letter shaped separately, the volumes in Exhibit A refer to non-letters only. According to the Commission's R2001-1 Opinion, the total TY03 after rates volume for Outside County Periodicals is about 9.1 billion,. According to the shape related proportions indicated in LR-J-81, 4.38%, or approximately 399 million pieces, are letters. That leaves 8.7 billion flats and parcels. The number of parcel shaped Periodicals pieces is very small, and since no separate model exists for them, I treat my flats mail flow model as applicable to all non letter shaped pieces.<sup>10</sup>

The number of letter shaped pieces receiving automation discounts for each subclass and presort rate level is known from the billing determinants. Mitchell uses this information to estimate a complete set of billing determinants for letter shaped pieces. Subtracting the letter volumes from the corresponding totals gives non-letter billing determinants, to which I normalized the survey results from LR-I-87.

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<sup>10</sup> LR-J-81 is the PRC costing version (according to the Postal Service's interpretation of PRC costing) of LR-J-53 in Docket No. R2001-1. Both library references develop test year per-shape mail processing unit costs in each MODS/PIRS based cost pool. I used the LR-J-81 costs for Outside County Periodicals to perform a "CRA adjustment" to my unit cost estimates, as described below in Section V.5.



## 2. Non-Letter Piece Volumes

My starting point for estimating non-letter piece volumes is Tables 6 (regular rate) and 7 (nonprofit) in LR-I-87. I extracted from the original survey tables a set of “scenario” volumes, where each “scenario” represents a combination of container type, container presort, bundle presort and piece characteristics (machinability and pre-barcoding). From combinations of these “scenario” volumes I created sums that correspond to the seven main current piece rate categories for which billing determinants are available.<sup>11</sup> Dividing actual billing determinant volumes by these summed scenario volumes gives a set of multiplying factors, shown for regular rate and nonprofit in the table below.

As the table shows, the mail characteristics survey appears to have underestimated considerably the volume of non-automation basic in both regular rate and nonprofit, requiring large corrective factors for this rate category, while it appears to have overestimated the volume of carrier route presorted flats in both subclasses.

<b>Table 1: Multiplying Factors That Adjust Survey Results To Billing Determinants</b>		
Rate Category	Regular Rate	Nonprofit
Non-automation Basic	2.268833	2.169982
Non-automation 3-Digit	1.567001	0.447340
Non-automation 5-Digit	1.684180	0.686931
Carrier Route	0.908587	0.749931
Automation Basic	0.930705	1.688308
Automation 3-Digit	1.014220	1.055454
Automation 5-Digit	0.847260	1.056143

No survey data exist for classroom publications, but there are billing determinants. My volume estimates are extended to this subclass by applying a third set of multiplying factors to the combined regular rate and nonprofit survey volumes.

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<sup>11</sup> See spreadsheet pages 'Vols-Per Reg' and 'Vols-Per Non'. Use of the term “scenario” to describe this division of the Periodicals flats volume was introduced in the testimony of witness Yacobucci (USPS-T-25) in R2000-1.

### 1 3. Bundle Volumes

2 The LR-I-87 mail characteristics survey provided counts of bundles per bundle presort  
3 level, container type and container presort level. It also classified bundles as auto or  
4 non-auto. This allows each cell of bundle counts to be associated with one and only  
5 one of the rate categories in Table 1. I could therefore use the same set of multiplying  
6 factors used for piece counts to adjust bundle counts to the billing determinants.<sup>12</sup>

7 Bundle counts are contained in LR-I-87's tables 9 (regular rate) and 12 (nonprofit).  
8 From these I extracted another tabulation, with organization similar to LR-I-87's tables 6  
9 (regular) and 7 (nonprofit) for the piece counts, in order to apply the multiplying factors  
10 to bundle counts.

### 11 4. Container Volumes By Entry Point

12 Tables 14 (regular rate) and 15 (nonprofit) in LR-I-87 list, for various categories of sacks  
13 and pallets, the estimated number of containers of each type and corresponding  
+ numbers of pieces. Assuming no change in the number of pieces per container and  
15 using the TY03 after rates number of pieces in each category, I could then estimate the  
16 TY03 number of containers of each type and presort level, for each subclass. The total  
17 number of containers used to enter Periodicals flats was estimated to be 111.756  
18 million, including 3.127 million pallets and 108.629 million sacks, as shown in Table 2.<sup>13</sup>

19 The next step was to break down the volumes of sacks and pallets at each presort level  
20 by the eight entry point categories used in LR-J-114:

21 (1) DDU (destinating delivery unit);

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<sup>12</sup> More recently the Postal Service has begun to accept bundles that mix barcoded and non-barcoded flats together, but at the time the survey was performed bundles were required to be classified as either auto or non-auto.

<sup>13</sup> Both the mail characteristics survey (LR-I-87) and entry point survey (LR-J-114) showed more pallets and fewer sacks than Table 2 indicates. The reason appears to be that both surveys tended to under-sample the very small mailings that use mostly sacks, and to over-sample large mailings that are mostly palletized.

- (2) DSCF (destinating sectional center facility);  
 (3) DADC (destinating area distribution center);  
 (4) DBMC (destinating BMC);  
 (5) OBMC (originating BMC – when different from the DBMC);  
 (6) OADC (originating ADC – when different from the DADC);  
 (7) OSCF (originating SCF - when different from the DSCF); and  
 (8) OAO (originating associate office or station – when different from the DDU).

<b>Table 2: Estimated TY03 After Rates Outside County Container Counts</b>					
Container	Presort	Regular Rate	Nonprofit	Classroom	Total
Pallets	5-D	343,262	52,098	1,719	397,079
	3-D/SCF	1,785,584	238,612	10,288	2,034,485
	ADC	605,092	85,925	4,696	695,714
Total Pallets		2,733,938	376,635	16,703	3,127,277
Sacks	CR	4,654,313	1,398,182	26,886	6,079,382
	CRS	10,461,858	962,654	48,222	11,472,734
	5-D	37,053,094	5,427,540	249,642	42,730,277
	3-D/SCF	27,097,352	3,296,416	297,762	30,691,530
	ADC	11,308,787	1,362,476	187,730	12,858,993
	MADC	4,185,519	530,665	80,036	4,796,220
Total Sacks		94,760,925	12,977,933	890,277	108,629,135
Total All Containers		97,494,863	13,354,569	906,981	111,756,412

The LR-J-114 entry point study also provides information on the locations of the originating facilities relative to the destinating facilities. For example, if a pallet or sack was entered at the OAO, the survey recorded whether the location of the OAO was: (1) within the service area of the destinating SCF (DSCF); (2) within the service area of the DADC, but outside that of the DSCF; (3) within the service area of the DBMC, but outside that of the DADC; or (4) outside the DBMC service area. Similarly, when entry occurred at the OSCF, one of the last three of these possibilities was recorded, and when it occurred at the OADC, one of the last two was recorded. Exhibit C shows the composition of the origin entries for each type of sack and pallet. I made use of this information to modify some LR-I-332 mail flow assumptions, as described in Section V.

A few comments may be useful at this point on current dropship patterns revealed by the entry point study.

It is probably not surprising that pallets are generally dropshipped to a far larger extent

than sacks. As can be deduced from the figures in Table A1, about 47.5% of all pallets are entered at a destinating facility (DBMC, DADC, DSCF or DDU), versus only 24.1% of sacks. On the other hand, when pallets are entered at origin, the originating facility is usually (85%) outside the DBMC service area, i.e., the origin is far away from the destinating facility. When sacks are entered at origin, however, about 26% are actually entered within the DBMC service area and many are entered even closer, e.g., at a nearby SCF or AO. These sacks, with relatively short transportation by the mailer, could avoid substantial postal costs. For example, of the about six million carrier route (CR) sacks that are entered at the originating facility, more than 60% originate within the service area of the DADC. A significant proportion of the 5-digit sacks entered at origin are also in fact entered close to their destinating facility. One hopes that stronger dropship incentives would cause more of these sacks (if not to convert to pallets) at least to be taken to some destinating facility, thereby reducing the traffic on postal platforms.

## **V THE COST MODEL**

The mail flow model used to calculate the unit cost estimates in Exhibit B is similar to the LR-I-332 model developed by the Postal Service and Christensen Associates during Docket No. R2000-1. LR-I-332's purpose was to estimate the reduction in Periodicals mail processing costs that could be expected from various changes in mail preparation requirements. It was designed to follow the flow of Periodicals flats entered with all relevant combinations of bundle and container presort, either in sacks or on pallets, from the time the mail is entered at a postal facility until it has been handed to the carriers who will deliver it. It identifies all processing costs incurred by these flats as either per-pallet, per-sack, per-bundle or per-piece, and produces a comprehensive set of unit cost estimates.

The development of LR-I-332 began during R2000-1 as a cooperative industry/USPS effort to try to limit the Periodicals rate increase. Because of the rapid growth in Periodicals processing costs since the previous rate case, on top of years of large, unexplained increases before that, another large increase seemed inevitable. Industry representatives agreed to certain changes in mail preparation that were expected to

1 reduce processing costs. There was a need for a new model to estimate what those  
2 savings would be, in order to make it possible to project test year Periodicals costs.

3 I participated in the earlier stages of LR-I-332's development as an industry expert. I  
4 discussed the project with the developers in face-to-face meetings and several phone  
5 conferences and I provided several suggestions that were incorporated in the model. In  
6 reviewing the final product while preparing this testimony, I concluded that the modeling  
7 approach used in LR-I-332 is well suited for developing the types of cost based rates  
8 that are being proposed in this case, but that a number of substantial changes to the  
9 model were needed, including the following:

- 10 • wage rates and piggyback costs from TY01 of R2000-1 were changed to  
11 TY03 of R2001-1;
- 12 • the model was changed to use PRC costing methodology;
- 13 • the R2000-1 modeling assumptions for flats piece sorting were changed to  
14 the R2001-1 assumptions, which include a more dominant role for the AFSM-  
15 100 machines;
- 16 • mail flow assumptions for containers entered at origin facilities were modified  
17 in accordance with the LR-J-114 entry point data;
- 18 • some costs categorized in the original model as per-bundle were re-  
19 categorized as per-piece, and other costs originally categorized as per-bundle  
20 or per-piece were re-categorized as primarily weight related.
- 21 • a CRA adjustment was applied to the modeled costs to make them  
22 correspond to TY03 after rates mail processing costs for non-letter  
23 Periodicals.

24 All of these changes have been made in the model prepared for this testimony and are  
25 described below in further detail, following an overview of the model's organization.

## 26 1. Model Overview

27 The model consists of a series of interlinked Excel spreadsheets, included in Library  
28 Reference TW et al. 1.<sup>14</sup>

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<sup>14</sup> The original model included some spreadsheets used only to carry out four parametric

Most of the model mail flow analysis is contained in 16 spreadsheets, each of which corresponds to a particular container type (sack or pallet) and a particular type of entry point. The naming convention is 'pallet\_bb\_' or 'sack\_bb\_' followed by a three or four letter abbreviation for the type of entry point, followed by '.xls'. For example, 'pallet\_bb\_dadc.xls' is the model for pallets entered at the destinating ADC. There are eight such spreadsheets for sacks and eight for pallets.<sup>15</sup>

In LR-I-332, each of the 16 spreadsheets contained large amounts of data common to all of them, including piggyback factors, wage rates, productivity rates, conversion factors, etc. A consequence of hard-coding so many numbers in so many different places is that it becomes very cumbersome to make model changes. To facilitate changes I use a new spreadsheet, called 'cost\_variables.xls', that contains various types of data and calculations common to the 16 model spreadsheets. This makes it possible to make changes in one place, rather than 16.

The original model also contained essentially duplicative calculations of per-piece and per-bundle costs in all 16 spreadsheets. It turns out that all the necessary piece related and bundle related unit costs can be computed using just one sack and one pallet model spreadsheet. I therefore made all the changes I needed to make for piece and bundle related costs in spreadsheets 'pallet\_bb\_oao.xls' and 'sack\_bb\_oao.xls.' The piece and bundle related flows in the 14 other spreadsheets were removed. However, all 16 spreadsheets are needed to analyze the costs of containers at different entry points.

Other linked spreadsheets included in the library reference are:

Costs_Volumes.xls	Extracts and tabulates the volume data contained in Exhibit A and the unit costs in Exhibit B. Also determines total costs implied by the calculated unit costs
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"scenario" analyses relevant to the R2000-1 estimates of the Periodicals revenue requirement but of no relevance to my present analysis.

<sup>15</sup> LR-I-332 uses a similar naming convention except that each spreadsheet name is preceded by 'method\_', e.g., 'method\_ pallet\_bb\_dadc.xls'.

VolumesTY03ar.xls	Calculates the billing determinants contained in Exhibit A and the entry point statistics in Exhibit C
Cost_Variables.xls	Miscellaneous input data and calculations
FlatsR01Modified.xls	Estimates piece sorting costs under R2001-1 assumptions
Bundleprod.xls	Sorting productivity in manual bundle sorting operations
CRAAdjust.xls	Performs CRA adjustment
LbPercentage.xls	Identifies Weight Related Costs

## 1 2. Estimates Of Piece Sorting Costs

2 The estimated per-piece costs include two main components:

3 (1) the "pure" piece sorting costs incurred at various manual, mechanized and  
4 automated piece sorting operations; and

5 (2) certain other costs incurred in transporting pieces that have already passed  
6 through at least one piece sort to subsequent piece sorts (if necessary) and to  
7 the DDU, until the pieces have been given to the carriers, who will then  
8 sequence and deliver them.

9 The first category of per-piece costs is in turn composed of two parts: (a) the piece  
10 sorting costs incurred in the absence of premature bundle breakage; and (b) the  
11 additional costs incurred when certain bundles break prematurely, which typically leads  
12 to additional piece sorting costs. For example, when a 5-digit bundle breaks in a 3-digit  
13 (incoming primary) bundle sort, the individual pieces from that bundle must be sent to  
14 an incoming primary sort, instead of being able to pass directly to the incoming  
15 secondary (5-digit) sort. The piece sorting costs related to bundle breakage were  
16 defined as "per-bundle" costs in LR-I-332. However, I define them as per-piece costs  
17 since they are determined not by the number of bundles that are broken but by the  
18 number of pieces in the bundles that are broken.

19 In Exhibit B, my estimates of "pure" piece sorting costs are shown in Table B3a.  
20 Witness Mitchell uses these costs in his design of Outside County piece rates.

21 The second cost category can be viewed as more weight related than piece related,  
22 since the costs are determined more by physical bulk than by the number of pieces.  
23 They are tabulated in Table B3b. While I computed these costs on a per-piece basis,

1 witness Mitchell did not use them in his design of piece rates. Table B3c contains the  
sum of the two piece related cost categories.

3 The LR-I-332 developers tried to be consistent with the piece and bundle related cost  
4 data contained in the Periodicals mail flow model in LR-I-90, presented in R2000-1 by  
5 witness Yacobucci (USPS-T-25). They used his model, assuming no bundle breakage,  
6 to run 48 different "scenarios," *pasting relevant cost and flow data for piece sorting*  
7 *operations under each scenario into a new table and making the resulting modified*  
8 *model, which is referred to by the 16 model spreadsheets, a part of LR-I-332. The*  
9 *spreadsheet was called 'flats\_costs\_model\_modify.xls.'* I have replaced it with  
10 'FlatsR01Modified.xls', which reflects R2001-1 assumptions regarding flow and cost of  
11 piece sorting, including the more prominent role of the AFSM-100.

12 I developed 'FlatsR01Modified.xls' by starting with the Periodicals flats model in USPS  
13 LR-J-61, introduced in R2001-1 by witness Miller (USPS-T-24). I set the assumed  
14 bundle breakage rate to zero. Unlike the R2000-1 model, the R2001-1 model is not  
structured around the 48 "scenarios." However, the cost of "pure" piece sorting  
16 (assuming no bundle breakage) depends only on bundle presort level and the  
17 characteristics of the individual pieces, not on the container the bundle came in. As a  
18 consequence, it is really necessary to develop the cost and flow information only for 16  
19 separate scenarios. I used Miller's flow model to create separate models for flats  
20 arriving in, respectively, MADC, ADC, 3-digitd/SCF and 5-digit bundles. Each model is  
21 on a spreadsheet page that calculates the cost and flow information for the four  
22 combinations of machinability/non-machinability and barcoding/no barcoding. The  
23 results are linked to a spreadsheet page named 'piece facility downflows,' laid out  
24 exactly as in LR-I-332.

25 The modeling of bundle breakage costs in the R2000-1 flats model was severely  
26 flawed, as I pointed out in my direct testimony in that docket.<sup>16</sup> The LR-I-332

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<sup>16</sup> The Commission agreed and used an alternative flats model that I had developed, with a different treatment of bundle breakage costs, as the basis for setting flats presort and automation discounts. PRC Op. R2000-1, ¶¶ 5648-5652.



1 developers appear to have recognized this and to have created a sharply different  
 2 model, including the use of the package integrity data obtained from an MTAC data  
 3 collection summarized in LR-I-297. The R2001-1 flats model, however, while  
 4 incorporating some LR-I-297 data, is also severely flawed in its assumptions.<sup>17</sup> I  
 5 therefore used the original LR-I-332 method to calculate bundle breakage costs.

### 6 3. Estimates Of Per-Bundle Costs

7 Bundle sorting is either mechanized or manual. Mechanized bundle sorting is  
 8 performed mostly at the SPBS (small parcel and bundle sorter) machines that come in  
 9 a variety of configurations. Some facilities also use the older LIPS machines for that  
 10 purpose. MODS productivity rates are measured at the SPBS/LIPS. For manual  
 11 bundle sorting, the only available productivity data are from special surveys, such as  
 12 the one described in LR-I-88 and used by USPS witnesses in the last two rate cases.<sup>18</sup>

13 But having measured overall productivity rates at these operations is not sufficient for  
 14 our purposes, because those productivity rates represent other work besides the actual  
 15 bundle sorting, such as opening sacks and shaking out their contents onto a moving  
 16 belt, disposing of the sacks, dumping pallets, etc. Since shaking out sacks generally  
 17 takes much more time per bundle than dumping a pallet, the productivity rates at an  
 18 SPBS operation can be expected to vary considerably with the mixture of sacked and  
 19 palletized mail that it processes. Since our objective is to separate sack, pallet and  
 20 bundle costs, it becomes necessary to identify "pure" mechanized and manual bundle

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<sup>17</sup> For example, the R2001-1 flats model (LR-J-61) fails to recognize the difference between mechanized and manual sorting of palletized bundles. In manual sorting from a pallet, the bundles are not dumped onto a belt but lifted from the pallet and thrown directly into the containers for which they are intended. Since these bundles face no risk of being broken until they land in the intended container, which represents a higher presort level than the pallet from which sortation is being made, any bundle breakage at that point will result in less and often no additional piece sorting. In the case of carrier route bundles being sorted manually from a 5-digit pallet, the bundles will get to the carriers, who have to break the bundles anyway, so that there are no bundle breakage costs. Docket No. R2001-1, Tr. 2179.

<sup>18</sup> Docket No. R2000-1, USPS-T-25, at 7 and Docket No. R2001-1, USPS-T-24, at 1.

1 sorting productivities, by excluding the component that consists of sack and pallet  
 2 handling. Additionally, employees at bundle sorting operations spend time replacing  
 3 containers that have been filled with sorted bundles with new, empty containers and  
 4 taking the full containers to the next operation. These costs, while clearly bundle  
 5 related, depend more on the bulk of the bundles than the number of bundles.

6 The task is therefore to isolate the “pure” bundle sorting productivity, i.e., the part of  
 7 bundle sorting that varies only with the number of bundles, not with the number of  
 8 sacks or pallets or with the bulk of the mail. For mechanized bundle sorting, the task  
 9 was addressed in the original LR-I-332 development, and I am using that result in the  
 10 present model. The task does not appear to have been addressed for manual bundle  
 11 sorting, and I have developed an analysis for that purpose, as described below.

#### 12 a. Mechanized Bundle Sorting.

13 The Postal Service’s R2000-1 flats model indicated an overall productivity of 223  
 14 bundles per workhour, based on LR-I-88. That was reduced to 201 under Yacobucci’s  
 15 bundle breakage assumption and raised to 313 under the Postal Service’s SPBS  
 16 volume variability assumption. The R2001-1 flats model uses a MODS based  
 17 productivity of 243.41 bundles per hour (or 367, assuming 66% volume variability).<sup>19</sup>

18 Analysis by the LR-I-332 team, based on LR-I-88, indicated that 43.41% of mechanized  
 19 bundle sorting hours are spent actually sorting bundles. I am using that estimate  
 20 together with the 243.41 overall productivity estimate from R2001-1, giving a “pure”  
 21 mechanized bundle sorting productivity of 560.75 bundles per workhour.

#### 22 b. Manual Bundle Sorting

23 The R2000-1 flats model indicates that, according to LR-I-88, the manual productivity,

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<sup>19</sup> Curiously, examination of the LR-I-88 spreadsheet ‘mechprod.xls’ shows that use of all observations from that survey would give an overall productivity of 246, very close to the R2001-1 result. The lower (223 bundles per hour) estimate was obtained by excluding all observations with productivity over 380 bundles per hour.

1 before applying volume variability, was 178 bundles per hour for MADC, ADC and 3-  
2 D/SCF containers, 409 for 5-D containers and only 99 for "CR Containers." LR-I-332  
3 used those estimates after applying USPS volume variability factors.

4 As confirmed in the answer to a Time Warner interrogatory, the estimate for "CR-  
5 Containers" actually refers to handling of carrier route sacks, not to bundle sorting.  
6 Docket No. R2000-1, Tr. 1461-62. It is inappropriate to use it to represent bundle costs  
7 in a model that treats sack handling costs separately. While a CR sack is likely to  
8 undergo sack sorting, which contributes to the per-sack costs, the bundles in it do not  
9 need any sorting, because they are already at the carrier when the sack is opened. In  
10 fact, 5-D, 3-D/SCF, ADC and MADC are the only types of bundle sort that need to be  
11 addressed.

12 As confirmed in the answer to another R2000-1 Time Warner interrogatory (Tr. 1468-  
13 69), LR-I-88 really shows that bundle sorting productivity varies a great deal between  
14 MADC, ADC and 3-D/SCF containers. This correction was adopted in the R2001-1  
USPS flats model.

16 In order to isolate the "pure" bundle sorting productivity at each container presort level, I  
17 followed the principle that activities that are separately identified in the model should  
18 not also be included in the bundle sorting productivity, since that would amount to  
19 counting the same activity twice.

20 Let me illustrate this with the case of MADC bundle sorting, applied to the bundles that  
21 come in MADC sacks. According to Table A2, there are 29,243,276 such Outside  
22 County bundles per year. With an overall productivity of only 76 bundles per workhour,  
23 this sortation would take a total of 383,494 hours. But the operation includes, for  
24 example, shaking out 4,796,220 sacks and disposing of those sacks afterwards. Those  
25 operations, applying the productivity rates assumed for them, would take respectively  
26 48,252 and 29,075 workhours. After subtracting these hours as well as hours for  
27 moving containers of sorted bundles to other operations, replacing those with empty  
containers and removing the empty containers that the sacks came in, all of which are  
29 separately identified in the model, the hours remaining for actual bundle sorting are

241,368, which indicates a “pure” bundle sorting productivity of 121.

Similarly derived estimates for ADC, 3-D/SCF and 5-D manual bundle sort are 369, 455 and 505 bundles per hour. The estimates are developed in spreadsheet ‘bundleprod.xls’.

c. Impact of Bundle Breakage

Although, as stated earlier, I treat the costs associated with bundle breakage as per-piece costs, breakage does have an impact on the estimated per-bundle costs. When a bundle breaks prematurely, it spends less time in the system as a bundle, leading to lower per-bundle costs, as well as higher per-piece costs. Because bundles that come in sacks have a much higher probability of breaking, the result is that for corresponding combinations of container and bundle presort, the per-bundle costs are slightly lower for sacked bundles. For example, a 5-digit bundle in an ADC sack is estimated to cost 51.56 cents, whereas the same bundle on an ADC pallet costs 54.84 cents under this methodology.<sup>20</sup> This should not be interpreted as meaning that putting bundles in sacks is less costly; the reverse is true when piece handling and container handling costs are also taken into account.

Because witness Mitchell’s “bundle tree” rate design assumes that piece sorting costs depend only on the bundle presort level and not on the container the bundle came in, and that bundle costs depend only on the container presort, not the type of container, he does not capture the distinctions described above. Ideally, the fact that sacks cause more breakage than pallets should be reflected in higher per-sack costs; however my present model puts those added costs as per-piece costs.

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<sup>20</sup> See Table B2c. The comparison refers to total bundle costs, including weight related costs. When container and bundle presort levels coincide, pieces in a bundle that breaks do not lose any sortation and bundle costs are the same whether the bundle came from a sack or pallet. For this reason, 3-digit bundles in 3-digit containers and ADC bundles in ADC containers cost the same whether the container is a sack or a pallet. See Docket No. R2001-1, Tr. 2168.

1 d. Weight Related Bundle Costs

2 A substantial portion of the costs identified by the model as "per-bundle" are related to  
 3 activities such as placing empty containers (e.g., hampers, APC's) at a bundle sorting  
 4 operation to receive sorted bundles, removing those containers when they are full and  
 5 taking them to a subsequent operation or to the platform and onto a truck to another  
 6 facility. These costs are converted to per-bundle costs by assuming that the containers  
 7 used (called OWC's in the model spreadsheets) contain an average of 52.45 bundles.  
 8 In reality, of course, the number of bundles in a full container depends on the number of  
 9 pieces per bundle and on the size of those pieces. I refer to those costs as weight  
 10 related bundle costs and identify them separately. Witness Mitchell excludes the  
 11 weight related bundle costs in his rate design. In Exhibit B, Table B2a contains the per-  
 12 bundle costs that Mitchell uses to develop per-bundle rates. Table B2b contains the  
 13 weight related bundle costs and Table B2c the sum of the two sets of costs.

14 4. Estimates Of Per-Sack And Per-Pallet Costs

15 The cost of handling sacks and pallets depends on entry point and the container presort  
 16 level. The model determines sack/pallet unit costs by: (1) identifying the types of postal  
 17 facilities that handle Periodicals sacks and pallets; (2) identifying the various processing  
 18 operations performed on sacks and pallets in each type of facility and determining the  
 19 unit cost of each operation; and (3) determining the probability that a sack or pallet with  
 20 given presort level and entry point will pass through each type of facility and each type  
 21 of operation.

22 a. Facility Types

23 Periodicals sacks and pallets may be handled in one or more of the eight types of entry  
 24 facility listed in Section IV.4. LR-I-332 represents the same categories of facilities, but  
 25 calls them transfer hubs (THs) rather than BMCs. Some USPS testimonies in previous  
 26 proceedings before this Commission have also referred to Periodicals transfer hubs.<sup>21</sup>

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<sup>21</sup> See testimonies of witness Acheson, Dockets No. R87-1 (USPS-T-12) and MC91-3 (USPS-

1 The reason for this inconsistent terminology appears to be that to avoid mixing  
 2 Periodicals and Standard mail, both of which arrive at BMCs, the Postal Service often  
 3 directs Periodicals to separate BMC annexes – facilities that mainly crossdock sacks  
 4 and pallets but do little or no further processing. I believe there are also cases where  
 5 Periodicals bypass the BMC altogether and are instead taken to a nearby general mail  
 6 facility (GMF). The term “transfer hub” appears to have been intended to show that  
 7 Periodicals arriving at a BMC are not always processed in the BMC main facility.  
 8 However, postal officials have stressed that a separate network of Periodicals transfer  
 9 hubs does not exist.

10 I have assumed that Periodicals handling at BMCs consists only of cross docking  
 11 pallets and sorting and dispatching of sacks. No Periodicals sacks or pallets are  
 12 assumed opened at BMCs. Except for mixed ADC (MADC) sacks, whose contents are  
 13 typically distributed at the OADC, I assume, as does LR-I-332, that all sorting of  
 14 Periodicals bundles and flats pieces occurs at the DADC, the DSCF or the DDU.

15 In this case witness Mitchell proposes separate rates for sacks and pallets entered at  
 16 the DBMC that are lower than the rates proposed for sacks and pallets entered at origin  
 17 facilities. The proposed rates are based on the unit cost estimates in Table B1. The  
 18 separate DBMC rates would apply to entry at facilities that the Postal Service  
 19 designates for DBMC entry of Periodicals. As discussed above, this might not always  
 20 be the main BMC facility.

#### 21 b. Container Operations Costs

22 In LR-I-332, each of the 8 sack and 8 pallet spreadsheets computes a set of container  
 23 operations costs. Since an operation costs the same regardless of how frequently it is  
 24 performed on a container with given entry point and presort level, the operations cost  
 25 calculations are exactly the same in all 8 sack related spreadsheets, and similarly in all  
 26 8 pallet related spreadsheets. To avoid having to repeat every change in operations

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T-2). On the other hand, witness Crum, Docket No. R2001-1 (USPS-T-27) refers to Periodicals sacks and pallets being handled at BMCs.

costs eight times, I moved the spreadsheet pages 'sack operations costs' and 'pallet operations costs' into spreadsheet 'cost\_variables.xls' and linked each sack/pallet model to the calculations in that spreadsheet.

The operations cost spreadsheet pages list a series of operations that may be performed on sacks or pallets in each type of facility. The per-sack or per-pallet unit cost is computed for each operation using the estimated productivity rate (units/workhour), conversion factor if the unit handled is something other than sacks (pallets) and TY03 wage rates, piggyback factors and premium pay factors.

LR-I-332 uses productivity rates for container handling operations from several different sources:

1. LR-H-132, describing a survey of 6 BMC's to update some of the productivity rates from witness Byrne's R84-1 testimony.
2. Byrne's R84-1 testimony, USPS-T-14, describing a study at the Philadelphia BMC, the San Francisco BMC and the Buffalo ASF/SCF.
3. PIRS – the BMC workhour and volumes recording system; and
4. the Planning Guidelines (PGL), developed using industrial engineering methods.

I use most of the productivity rates that LR-I-332 uses, except that they are modified by PRC, rather than USPS, assumptions of volume variability. Described below are some of the changes I made in assumptions about productivity rates and container operations costs, other than changes related to wages, piggyback factors and volume variability.

- Unloading At Entry Facilities. LR-I-332 container flows start with the containers already at the platform of the entry facility. But the containers did not get there by themselves. Generally, mailings entered at SCF's or BMC's are unloaded onto the platform by USPS employees, adding to their costs. At delivery units (AO's, stations and branches) unloading is generally done by the mailers. I added unloading at the entry point facility when that facility is an SCF, ADC or BMC.

- 1 • Pallet Cross Docking. LR-I-332 assumes that 6.7 pallets are cross docked per  
workhour. But this is based on BMC data, BMC's being large facilities with large  
3 distances between inbound and outbound docks. Cross docking at most SCF's  
4 should be faster. LR-I-332 also estimates that 8.5 pallets/hour are transferred  
5 from the platform to the bundle sorting operation. This figure comes from the  
6 testimony of Byrne, who gave it as an average BMC/SCF cross docking  
7 productivity. He measured 9.5 pallets per hour at Buffalo, a large SCF and the  
8 only one he studied. I am using 9.5 pallets/workhour for cross docking at SCF's  
9 and ADC's, as well as for bringing pallets to the bundle sorting area. For cross  
10 docking at BMC's I use the 8.5 pallets/hour estimate. The BMC annexes where  
11 Periodicals often are cross docked are smaller than the BMC main facilities, with  
12 shorter distances between inbound and outbound platforms.
  
- 13 • Pallets That Are Sorted Manually. LR-I-332 recognizes the cost of "dumping" a  
14 pallet at a mechanized bundle sorting operation – a fairly time consuming affair  
15 because the dumping must occur slowly enough not to overwhelm the belt with  
16 bundles or cause unnecessary bundle breakage. However, there are also some  
17 costs associated with making a pallet ready for manual bundle sorting, such as  
18 removing the plastic wrapping material used to keep bundles in place during  
19 transport. I introduced an operation for breaking a pallet for manual sorting,  
20 based on an industrial engineering standard used by USPS witness Acheson in  
21 his R87-1 and MC91-3 pallet testimonies.<sup>22</sup>
  
- 22 • Operations at AO's, Stations and Branches. Applying productivity rate  
23 assumptions developed at the much larger SCF's and BMC's to small delivery  
24 units can give a distorted picture of the workhours needed at the smaller offices.

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<sup>22</sup> Acheson's estimate assumed that to open a pallet one had to cut the metal bands holding in place the hard (usually wooden) top that used to be placed on pallets carrying Periodicals or Standard flats. Today, most pallets are secured by plastic wrapping instead of a hard top, and opening a pallet involves just cutting through the plastic wrapping and removing it, generally a faster operation than the one Acheson analyzed. However, Acheson's productivity rate is the only one I am aware of that represents getting a pallet ready for manual bundle sorting.



For example, moving a pallet from the platform to a bundle sort operation can be time consuming and costly at a large facility. When a 5-digit pallet is unloaded at a DDU, the distance it must be moved from the platform to the bundle sorting operation is only a few feet, and I assume it to be part of the unloading operation. The same applies to rolling containers of sacks that arrive at the DDU.

- Containers Entered at AO's. When a pallet is entered at an originating associate office (OAO), LR-I-332 assumes it is cross-docked before being loaded onto a van to the next facility. But the cross-docking productivity used assumes that the pallet will be moved across a large area from inbound to outbound platform. At an AO the inbound and outbound platform is the same and the "cross-docking" can be rolled into the operation of loading the pallet.

Similarly, when sacks are entered at the OAO, LR-I-332 assumes they are sorted, then moved in an in-house container to the outbound dock, then loaded onto a truck. My assumption is that the sacks are not sorted at the OAO, just passed on to the upstream facility, and that they do not need to be moved to the outbound dock since they already are there.

Even with the changes described above, it is possible that the productivity rates used tend to underestimate the cost of some operations and overestimate the cost of others. For example, productivity rates derived from industrial engineering, such as those in the PGL, refer to ideal conditions and therefore may not be achieved in practice. For this reason, I may have underestimated the cost of operations such as shaking out a sack. See Docket No. R2000-1, Witness Eggleston's response to Time Warner Interrogatory TW-T26-2b. On the other hand, I may have overestimated the costs of some pallet operations at non-BMC facilities, particularly cross docking.<sup>23</sup>

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<sup>23</sup> My estimate that 9.5 pallets are cross docked per workhour is based on Byrne's survey at the Buffalo SCF, which is larger than most SCF's. I haven't been to that facility recently, but at the time when Byrne's survey was done, the incoming and outgoing platforms were on opposite sides of the building, requiring one to cross through the workroom floor in order to transfer

c. Container Downflows

Container downflows define the flow of containers between the eight types of facilities, or entry points, listed earlier. Determining the downflow is reasonably straightforward once a container reaches a destinating facility. For example, from a destinating BMC a container with ADC presort will flow to the DADC, while three-digit and SCF containers flow to the DSCF. Five digit containers may flow to either the DADC or the DSCF, although some of them may flow directly to the DDU. And whether they go to the DADC or DSCF, they will go from there to the DDU.

From more remote entry points, there are more possible paths that a container can follow. It appears that the LR-I-332 developers must have made some fairly arbitrary assumptions about the flow of containers from entry points OAO, OSCF and OADC. For example, if a 5-digit container is entered at the originating associate office (OAO), its next facility could be either the OSCF, OADC, OBMC, DBMC, DADC, DSCF or DDU – a total of seven possibilities. LR-I-332 assumes the probability of each to be exactly one seventh, or 14.286 percent. For 3-digit containers, there are six possible flows from the OAO, and the probability of each was assumed to be exactly one sixth, or 16.667%. These do not appear to be empirically based estimates.

With the entry point data described in LR-J-114, more information is available than when LR-I-332 was developed. Take for example the case of OAO entry. Clearly, the subsequent flow depends on the OAO's location relative to the destinating facility. It might be in the service area of the same SCF as the DDU, i.e., close by, a definite possibility in the case of local publications. Or, it might be in the service area of the DADC but not the DSCF, or in the service area of the DBMC, but not the DADC, or it may be in the service area of another BMC, i.e., OBMC. From LR-J-114 it is possible to determine the probability of each alternative, for each sack or pallet presort level.

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pallets from one side to the other. And the BMC based productivity rates for loading and unloading pallets (respectively 12.7 and 11.6 pallets per workhour) are much slower than the rates indicated by the PGL (40.5 and 42.6 pallets per workhour). These discrepancies may be one reason why the CRA adjustment described in Section V.5 required a downward adjustment in sack, pallet and bundle cost estimates.

Exhibit C shows the distributions of originating entry point types among types of service area. For example, when a 5-digit pallet is entered at the OAO, the OAO is either in the service area of the DSCF (26.36%) or at least the service area of the DADC (73.64%). Roughly similar numbers apply for carrier route sacks entered at the OAO, although some entries are in more remote AO's.

When the OAO is in the DSCF service area, I assume that the next facility is the DSCF and that from there the container (if it is a 5-digit container) flows to the DDU.<sup>24</sup> If the OAO is in the DADC area, I assume that 50% goes to the DADC and 50% to the DSCF.

The table labeled 'Container Flows Between Facility Types' in spreadsheet 'VolumesTY03AR.xls' contains my assumptions of downflows from the OAO, OSCF and OADC, under each possible assumption regarding the service area in which these facilities are located. Combined with the LR-J-114 data described above, this allows computation of the combined downflow from OAO, OSCF and OADC entry facilities, for each combination of container type and container presort level. I relied on LR-I-332 assumptions regarding the downflows from OBMC, DBMC, DADC and DSCF.

One would naturally think of the OAO as the facility most remote from the mail's final destination, followed by the OSCF, etc. But because OAO entered mail contains a high component that is entered close to the destination (e.g., in the DSCF or DADC service area), the estimated costs of some container type/presort combinations are actually lower for OAO entry than for OSCF, OADC and OBMC entry. For example, a 5-digit pallet entered at the OAO is estimated at \$26.55, versus \$30.72 under DBMC entry and \$37.62 under OBMC entry, as can be seen from Table B1.

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<sup>24</sup> I assume that the flow from an originating AO is always to its SCF. If the mail could be sent to other facilities from the AO, there would have to be multiple transportation links from the AO and, at least in the case of sacks, the AO would need to sort outgoing sacks, a function I believe is normally left to upstream facilities. The LR-I-332 assumption that 14% would flow from the OAO directly to the DDU therefore seems unlikely to be true. On the other hand, the SCF serving the AO may be an ADC, so the flow from OAO could be to OSCF or to OADC.

## 1 5. CRA Adjustment

2 Applying projected TY03 after rates non-letter Outside County mail volumes to the  
3 pallet, sack, bundle and piece unit costs indicated by my model results in total costs  
4 somewhat higher than indicated by corresponding CRA based projections. I therefore  
5 performed a CRA adjustment, as described below. The calculations are performed in  
6 spreadsheet 'CRAAdjust.xls'.

7 In USPS LR-J-81 (R2001-1), spreadsheet 'shp03prc.xls' contains the PRC version of  
8 the projected test year mail processing unit costs per shape, subclass and MODS/PIRS  
9 cost pool. For Outside County Periodicals, the unit costs over all cost pools, including  
10 piggyback costs, are \$0.06727 for letters, \$0.13274 for flats and \$3.2788 for parcels.  
11 When test year volumes are applied, projected total mail processing costs are \$1,232  
12 million, of which \$27 million are for letters and \$1,205 million for non-letters.

13 My model is designed to represent the flow of presorted flats through the postal system.

14 There is no separate model for parcel shaped Periodicals. But whereas letters are  
15 treated separately in Mitchell's rate design, the non-letter rates must cover the total  
16 costs incurred by both flats and parcels. It is therefore appropriate to compare costs  
17 indicated by the model with the CRA costs for flats and parcels combined.

18 However, not all of the \$1,205 million CRA based non-letter costs are related to the  
19 normal flow through the system of sacks, pallets, bundles and pieces that the model  
20 represents. I therefore excluded from the comparison \$90.2 million corresponding to  
21 costs incurred at 18 MODS based cost pools. The \$47 million in forwarding costs  
22 (MODS operation LD49) represent the biggest portion of excluded costs.

23 Subtracting the \$90 million from the \$1,205 million total, I conclude that the model, with  
24 TYAR volumes applied, should indicate costs equal to \$1,115 million. The model  
25 actually gives a total of \$1,213 million, requiring an 8.1% downward adjustment.  
26 However, I do not believe it would be appropriate to apply this adjustment uniformly to  
27 all model costs, for reasons explained below.

28 The model generates \$425 million in piece sorting costs, not including the costs of

moving sorted pieces between operations or between facilities that I have identified as weight related piece costs. I estimated the CRA based piece sorting costs by adding up the costs at MODS/PIRS operations that represent piece sorting. They came to \$431 million, slightly more than the model generated piece sorting costs. This would seem to indicate that the modeled piece sorting costs should be increased by about 1.4%, while the remaining modeled costs should be reduced by a much larger percentage. Since the modeled piece sorting costs in fact are very close to the CRA costs, and some judgment is involved in determining precisely which CRA costs to compare them with, I did not adjust them. The required adjustment factor for per-bundle, per-sack and per-pallet unit costs then comes to 0.875, representing a 12.5% downward adjustment.

The unit costs shown in Exhibit B are the adjusted costs that form the basis for witness Mitchell's rate design. Spreadsheet 'Costs\_Volumes.xls' contains both the adjusted and unadjusted costs.

#### Modeled Cost Pools

This section describes my reasoning in selecting the MODS/PIRS cost pools to include in the comparison with (1) total modeled costs; and (2) modeled piece sorting costs.

Mail processing CRA costs are based on IOCS sampled observations of the activities of clerks and mailhandlers. Since R97-1, these costs are estimated by cost pools defined by the MODS and PIRS systems. There are many apparent contradictions in the MODS/IOCS data. Clerks may be recorded as sorting flats at a letter or parcel sorting operation, or sorting letters or parcels at a flats operation, etc. Or they may be recorded as handling Periodicals flats at operations where Periodicals flats do not belong, e.g., operations dedicated to Express mail, or international mail.

One can form different theories about what these aberrations mean. For example, the CRA data show \$526,915 spent sorting Periodicals flats at OCR's, which are used only for letter mail. The corresponding IOCS observations may reflect flats actually being handled at an OCR, or an employee logged into an OCR operation temporarily handling flats, or simply IOCS recording errors. Since there is no way to know for certain how

these questions should be resolved, some reasonable assumptions are needed in order to perform the type of CRA adjustment discussed here.

I assumed, first of all, that employees were handling flats when IOCS recorded that they were handling flats, even though they may have been recorded at the same time as working at letter or parcel operations. Similarly, I assumed that employees were handling letters or parcels when recorded as handling those shapes by IOCS. The same assumption appears to underlie the shape based costs in LR-J-81.

Second, I assumed that observations taken at the following cost pools do not represent modeled processing activities and should be excluded from our comparisons:

- Forwarding (LD49);
- Acceptance (LD79);
- Priority;
- Express Mail;
- Business Reply;
- Mailgrams;
- Registry;
- Rewrap;
- Intl;
- Misc.;
- Support; and
- LD48 administrative functions

There are cost pools corresponding to Express, Registry and Misc. both in MODS and Non-MODS offices. The LD48 includes four different cost pools. Altogether, that brings to 18 the number of excluded pools.

Third, I counted as piece sorting related all costs recorded as flats or parcels handled at pools for flats piece sorting (FSM, FSM-1000, MANF) and letters piece sorting (BCS, BCS/DBCS, OCR, LSM, MANL).<sup>25</sup> A further assumption was needed regarding the

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<sup>25</sup> I did not count as piece sort related the costs at pools associated with parcel sorting (e.g., PSM, SSM, Mecparc, Manp). Most of the Outside County costs at these operations are shown

Function 4 (stations and branches) operations LD41, LD42, LD43 and LD44. These pools include various allied operations, such as unloading of sacks and pallets and bundle sorting, as well as piece sorting. Analysis of IOCS tallies at these pools in R2000-1 and R2001-1 indicates that roughly half are piece sorting costs and I assumed that to be the case also for Periodicals flats.

Excluding all of the 18 cost pools listed above from the comparison between CRA and modeled costs may have led to estimates of bundle, sack and pallet costs that are somewhat too conservative. For example, a total of \$17.2 million in flats and parcel costs are associated with cost pools "Misc" in MODS and Non-MODS offices. Misc activities could include many of the operations on pieces, bundles, sacks and pallets that I am modeling, as well as costs not modeled. And when employees were recorded as handling Periodicals flats in operations where Periodicals do not belong at all (e.g., Express, mailgrams, etc.), it is possible that the employees were clocked into those operations but in reality performing one of the modeled activities. Excluding fewer cost pools from the comparison would increase the unit cost estimates in Tables B1 and B2.

#### 6. Estimating The Proportion Of Periodicals Costs That Are Pound Related

The total TY03 after rates costs attributable to Outside County Periodicals are \$2,404.808 million. After the CRA adjustment described above, the total costs related to user prepared sacks and pallets, together with non-weight related bundle costs, are \$500.44 million, or 20.81% of the total costs. Based on this information, witness Mitchell develops sack, pallet and bundle charges that represent roughly the same percentage of the total revenue requirement.<sup>26</sup>

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as occurring for flats rather than parcels, and I believe it is more likely that such operations would be used to sort bundles of flats than individual flats.

<sup>26</sup> All dollar amounts in this section refer to TY03 after rates costs based on PRC costing methodology and before adding contingency. Calculations are performed in spreadsheet 'LbPercentage.xls' in LR TW-et-al.1. PRC Op. R2001-1, Corrected Appendix F gives the costs per subclass and cost segment. Spreadsheet 'pigty03.xls', in R2001-1 PRC library reference 6, contains applicable piggyback factors per cost segment and subclass.

Under traditional rate design, 60% of the revenue requirement is derived from the piece rates and 40% from the pound rates. But with the new cost based rate elements for sacks, pallets and bundles, it is necessary to derive only slightly less than 80% of the revenue requirement from piece and pound charges. Witness Mitchell was faced with the question of exactly which percentage of the costs it would be reasonable to derive from the pound rates.

Since many postal operations are affected to some degree both by the number of pieces handled and the weight of those pieces, it may never be possible to determine with absolute precision which portion of the overall costs are primarily weight related. However, the analysis presented below leads me to conclude that it would be reasonable and consistent with the concept of cost based rates to derive 30% of the Outside County revenues from pound rates, when 20+ percent are derived from sack, pallet and bundle charges. My analysis identifies about 25% of the costs that are clearly weight related and shows that there must be additional weight related costs both in delivery and in mail processing.

Transportation costs are generally incurred on a cube or weight related basis and are pound rather than piece related. Outside County costs from Cost Segment 14 (purchased transportation) and Segment 8 (vehicle service drivers) are respectively \$342.758 million and \$45.144 million. The Segment 8 costs must be increased by a factor of 1.589 to include piggyback costs. This gives total transportation related costs equal to \$414.498 million.

In addition, as described earlier, my analysis identifies certain bundle and piece related costs that in fact vary not with the number of bundles or pieces but with their cube/weight. After the CRA adjustment, those costs are, respectively, \$128.185 million and \$50.987 million. Adding them to the transportation costs gives identifiable weight related costs equal to \$593.830 million, or 24.69% of total Outside County costs.

But the total weight related costs must be higher, for the following reasons:

- (1) delivery costs clearly must have some weight related component; and
- (2) even piece sorting costs are to some extent affected by the weight of the



1 pieces sorted.

– Total delivery costs attributed to Outside County Periodicals, with piggyback costs, are  
 3 \$743.054 million. I don't know what percentage of these costs is weight/cube related,  
 4 but clearly the percentage is greater than zero. Costs related to loading delivery  
 5 vehicles, walking a park and loop route, etc. seem likely to depend on weight more than  
 6 on the number of pieces.<sup>27</sup> Let us assume, for example, that delivery costs overall are  
 7 17% weight related. That would add \$126.32 million to the weight related costs and  
 8 make them almost exactly 30% of the total.

9 Furthermore, even the costs of piece sorting, which so far we have assumed to occur  
 10 strictly on a per-piece basis, do have a weight related component. Take for example  
 11 the sorting of flats on an AFSM-100. This machine is typically staffed by five clerks:  
 12 three that feed flats into the machines and two that sweep trays of sorted flats and  
 13 replace them. The thicker the flats are, the faster those trays fill up, so that the sweep  
 14 side costs of the AFSM-100 operation are affected by weight to a substantial extent.  
 Similarly, there is bound to be some component of manual flats sorting that is affected  
 16 by the thickness of the flats being sorted.

17 Based on these considerations, although I cannot determine precisely the proportion of  
 18 either delivery costs or piece sorting costs that are weight related, I believe it is  
 19 reasonable to consider at least 30% of Outside County Periodicals costs as weight  
 20 related, when 20.81% are considered to be per-sack, per-pallet and per-bundle costs.

## 21 VI. CONCLUSIONS

22 I have presented a set of unit cost estimates that reflect, as accurately as possible with  
 23 available data, how Periodicals mail processing costs vary with the number of pieces,  
 24 bundles, sacks and pallets, as well as with the piece characteristics, bundle and  
 25 container presort levels and container entry points relative to the destinating facility. I

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<sup>27</sup> Rural carrier contracts are determined by counts of letters and flats, which would indicate that rural delivery costs are piece related. However, it seems likely that the carriers would demand a re-negotiation if those flats were suddenly twice as heavy.

1 have also identified the piece and bundle related costs that are most appropriate to  
consider as weight related.

3 This information provides a foundation for the development of Periodicals postal rates  
4 that are truly cost based and therefore can give mailers the most accurate price signals.  
5 Postal rates consistent with this information, such as the rates presented by witness  
6 Mitchell, will give mailers strong incentives to prepare their mail in a manner that  
7 reduces the Postal Service's costs of handling it. In particular, such rates will provide  
8 strong disincentives to certain long established but costly practices, such as forcing the  
9 Postal Service to handle sacks with only one or a few pieces in them.

10 Establishment of postal rates based on these unit costs will present significant  
11 challenges and opportunities to large and small mailers, to their printers and to  
12 developers of mail preparation software, to prepare and enter Periodicals in a way that  
13 minimizes the combined total costs to mailers and the Postal Service.

Development of my cost model started with the model described in LR-I-332 that was  
15 developed by the Postal Service, with some input from the Periodicals industry, during  
16 the Docket No. R2000-1 proceedings. To my knowledge, that model represented the  
17 first serious attempt to identify and measure all the major mail characteristics, except  
18 address quality, that affect the cost of processing a Periodicals mailing. In addition to  
19 updates in accordance with the cost, volume and mail flow assumptions adopted in  
20 Docket No. R2001-1 that form the basis for the rates currently in effect, I have identified  
21 and corrected various imperfections in the original model, as documented in the  
22 preceding pages.

23 No model is better than the data it is based on, and I did not have perfect data.  
24 Following the practice established by USPS witnesses in recent rate cases, I addressed  
25 the problem of imperfect data, in the aggregate, by a "CRA adjustment" that assures  
26 that the total Periodicals processing costs predicted by the model are consistent with  
27 TY03 after rates CRA costs.

28 Processing methods and mailer practices are changing continually. The data I have

1 used are several years old, and I have no doubt that the model could be improved by  
2 use of more recent data which the Postal Service may already possess. However, I  
3 believe that with updates based on the newest available data this model can continue  
4 to be a suitable and accurate tool for the determination of unit costs and the  
5 development of truly cost based Periodicals rates.

## OUTSIDE COUNTY NON-LETTERS EXPANDED BILLING DETERMINANTS

### FOR R2001-1 TEST YEAR (FY2003) AFTER RATES VOLUMES

<b>Table A1: Outside County Sack &amp; Pallet Counts By Entry Point &amp; Container Presort</b>									
Container		Entry Point							
Type	Presort	DDU	DSCF	DADC	DTH	OTH	OADC	OSCF	OAO
Sacks	MADC	0	0	0	0	224,884	2,200,448	1,708,869	662,019
	ADC	0	0	422,139	78,776	1,424,488	5,366,765	4,925,537	641,288
	3-D/SCF	0	2,226,350	988,599	231,660	2,787,181	11,203,943	11,600,477	1,653,319
	5-d	309,522	11,224,523	2,518,589	202,342	1,770,182	9,622,411	14,581,714	2,500,994
	5-d CR	282,439	2,960,878	936,374	53,947	186,875	1,954,406	4,591,924	505,890
	CR	507,057	2,784,291	404,755	8,960	50,796	305,983	618,825	1,398,715
Pallets	ADC	0	0	71,306	10,201	74,720	272,412	236,724	30,351
	3-D/SCF	0	827,316	207,650	56,942	135,881	467,350	314,639	24,706
	5-Digit	44,443	245,000	18,099	4,308	14,846	26,038	43,955	389

<b>Table A2: Estimated Counts Of Bundles By Bundle &amp; Container Presort Level</b>									
Bundle Presort	Sacks						Pallets		
	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit
MADC	9,639,244								
ADC	9,914,650	15,172,444					1,486,740		
3-D	5,814,701	17,787,700	50,694,240				13,520,311	11,666,063	
5-D	3,874,680	6,589,924	41,427,415	71,933,516			43,716,582	93,469,264	2,070,635
CR					38,115,686	8,243,936	13,055,749	179,625,021	21,465,550
Total	29,243,276	39,550,069	92,121,655	71,933,516	38,115,686	8,243,936	71,779,382	284,760,348	23,536,185

**Table A3: Piece Counts By Bundle & Container Presort Level And Piece Characteristics:**

Bundle Level	Piece Type	Sacks						Pallets		
		MADC	ADC	3-D	5-D	5-D CR	CR	ADC	3-D	5-D
MAD C	NBC/N	52,102,794								
	M									
	NBC/M	33,504,438								
	BC/NM	9,761,968								
ADC	BC/M	28,720,921								
	NBC/N	19,061,366	57,620,772					2,590,905		
	M									
	NBC/M	34,625,721	39,295,246					5,119,522		
3d	BC/NM	9,646,521	19,938,480					1,418,346		
	BC/M	28,338,964	41,608,848					4,123,317		
	NBC/N	16,120,706	24,764,255	156,901,102				20,001,049	24,815,933	
	M									
5d	NBC/M	10,705,336	22,826,894	76,128,804				20,152,286	39,882,698	
	BC/NM	6,353,327	46,784,622	170,299,566				58,237,066	35,906,692	
	BC/M	13,345,362	70,021,502	455,003,855				147,832,565	100,780,613	
	NBC/N	10,912,188	12,350,855	43,397,518	216,206,791			20,102,894	52,591,277	666,942
CR	M									
	NBC/M	7,842,429	25,890,816	64,435,146	59,589,693			47,099,126	124,254,921	11,565,506
	BC/NM	713,971	3,205,328	54,744,526	371,968,417			129,428,996	240,368,395	835,143
	BC/M	2,177,572	9,429,278	202,827,640	169,630,150			327,279,486	883,656,105	7,202,595
CR	NM					285,547,287	134,258,757	32,911,822	304,715,641	50,269,303
	M					78,097,471	0	99,283,008	2,270,153,403	450,741,732
Total Pieces:		283,933,583	373,736,896	1,223,738,157	817,395,051	363,644,758	134,258,757	915,580,388	4,077,125,678	521,281,221
					Sacked:		3,196,707,203	Palletized:		5,513,987,287
								Total TY03:		8,710,694,490

**OUTSIDE COUNTY NON-LETTERS - MAIL PROCESSING UNIT COSTS OF HANDLING PIECES,  
BUNDLES, SACKS AND PALLETS**  
ADJUSTED TO R2001-1 TEST YEAR (FY2003) CRA COSTS UNDER PRC COSTING METHODOLOGY

<b>Table B1: Unit Costs Of Sack/Pallet Handling By Entry Point &amp; Container Presort</b>									
Container		Entry Point							
Type	Presort	DDU	DSCF	DADC	DBMC	OBMC	OADC	OSCF	OAO
Sacks	MADC						\$1.20	\$2.01	\$1.88
	ADC			\$1.29	\$2.37	\$2.91	\$3.35	\$3.25	\$3.24
	3-d		\$1.29	\$2.02	\$2.37	\$2.98	\$3.36	\$3.21	\$2.75
	5-d	\$0.93	\$1.73	\$2.10	\$2.78	\$3.29	\$3.58	\$3.39	\$2.57
	5-d CR	\$0.93	\$1.73	\$2.10	\$2.78	\$2.98	\$3.39	\$3.23	\$2.44
	CR	\$0.93	\$1.73	\$2.10	\$2.78	\$2.98	\$3.50	\$3.03	\$2.31
Pallets	ADC			\$13.67	\$26.90	\$33.65	\$41.09	\$40.87	\$47.91
	SCF/3D		\$13.67	\$25.72	\$26.90	\$35.41	\$41.07	\$40.26	\$42.26
	5D	\$1.57	\$17.05	\$24.58	\$30.46	\$37.30	\$44.38	\$43.07	\$26.32

<b>Table B2a: Per-Bundle Unit Costs By Bundle &amp; Container Presort Level - Excludes Weight Related Bundle Costs - Used In Mitchell's Rate Design</b>									
Bundle Presort	Sacks						Pallets		
	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit
MADC	\$0.2595								
ADC	\$0.3180	\$0.1038					\$0.1038		
3-Digit	\$0.3447	\$0.1649	\$0.1055				\$0.1707	\$0.1055	
5-Digit	\$0.3740	\$0.1940	\$0.1730	\$0.0000			\$0.2034	\$0.1799	\$0.0900
CR					\$0.0874	\$0.0000	\$0.2132	\$0.1921	\$0.0874

<b>Table B2b: Weight Related Per-Bundle Unit Costs By Bundle &amp; Container Presort Level</b>									
Bundle Presort	Sacks						Pallets		
	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit
MADC	\$0.0953								
ADC	\$0.4431	\$0.0847					\$0.0847		
3-Digit	\$0.5516	\$0.2974	\$0.0847				\$0.3165	\$0.0847	
5-Digit	\$0.5853	\$0.3173	\$0.2252	\$0.0379			\$0.3404	\$0.2417	\$0.0379
CR					\$0.0000	\$0.0000	\$0.3248	\$0.2465	\$0.0000

<b>Table B2c: Total Per-Bundle Unit Costs, By Bundle &amp; Container Presort Level, Including Weight Related Costs</b>									
Bundle Presort	Sacks						Pallets		
	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit
MADC	\$0.3549								
ADC	\$0.7611	\$0.1885					\$0.1885		
3-Digit	\$0.8963	\$0.4623	\$0.1902				\$0.4872	\$0.1902	
5-Digit	\$0.9593	\$0.5113	\$0.3982	\$0.0379			\$0.5438	\$0.4216	\$0.1279
CR					\$0.0874	\$0.0000	\$0.5380	\$0.4386	\$0.0874

**Table B3a: Unit Piece Processing Costs By Bundle & Container Presort Level & Piece Characteristics**  
**Excludes Weight Related Costs - Used In Mitchell's Rate Design**

Bundle Level	Piece Type	Sacks						Pallets		
		MADC	ADC	3-D	5-D	5-D CR	CR	ADC	3-D	5-D
MADC	NBC/NM	\$0.2909								
	NBC/M	\$0.1615								
	BC/NM	\$0.2432								
	BC/M	\$0.1212								
ADC	NBC/NM	\$0.1813	\$0.1694					\$0.1694		
	NBC/M	\$0.1284	\$0.1237					\$0.1237		
	BC/NM	\$0.1538	\$0.1439					\$0.1439		
	BC/M	\$0.0999	\$0.0963					\$0.0963		
3d	NBC/NM	\$0.1712	\$0.1580	\$0.1565				\$0.1566	\$0.1565	
	NBC/M	\$0.1174	\$0.1114	\$0.1100				\$0.1101	\$0.1100	
	BC/NM	\$0.1482	\$0.1372	\$0.1361				\$0.1362	\$0.1361	
	BC/M	\$0.0925	\$0.0879	\$0.0868				\$0.0868	\$0.0868	
5d	NBC/NM	\$0.1120	\$0.0936	\$0.0897	\$0.0814			\$0.0830	\$0.0819	\$0.0814
	NBC/M	\$0.0780	\$0.0682	\$0.0648	\$0.0585			\$0.0598	\$0.0589	\$0.0585
	BC/NM	\$0.1061	\$0.0910	\$0.0879	\$0.0814			\$0.0827	\$0.0818	\$0.0814
	BC/M	\$0.0650	\$0.0573	\$0.0546	\$0.0496			\$0.0506	\$0.0499	\$0.0496
CR	NM					\$0.0000	\$0.0000	\$0.0027	\$0.0010	\$0.0000
	M					\$0.0000	\$0.0000	\$0.0020	\$0.0007	\$0.0000



**Table B3b: Unit Piece Processing Costs By Bundle & Container Presort Level & Piece Characteristics**  
**Weight Related Costs Only**

Bundle Level	Piece Type	Sacks						Pallets		
		MADC	ADC	3-D	5-D	5-D CR	CR	ADC	3-D	5-D
MADC	NBC/NM	\$0.0502								
	NBC/M	\$0.0497								
	BC/NM	\$0.0502								
	BC/M	\$0.0497								
ADC	NBC/NM	\$0.0343	\$0.0343					\$0.0343		
	NBC/M	\$0.0324	\$0.0324					\$0.0324		
	BC/NM	\$0.0343	\$0.0343					\$0.0343		
	BC/M	\$0.0323	\$0.0323					\$0.0323		
3d	NBC/NM	\$0.0260	\$0.0289	\$0.0260				\$0.0289	\$0.0260	
	NBC/M	\$0.0260	\$0.0289	\$0.0260				\$0.0289	\$0.0260	
	BC/NM	\$0.0260	\$0.0289	\$0.0260				\$0.0289	\$0.0260	
	BC/M	\$0.0260	\$0.0289	\$0.0260				\$0.0289	\$0.0260	
5d	NBC/NM	\$0.0000	\$0.0000	\$0.0035	\$0.0000			\$0.0000	\$0.0032	\$0.0000
	NBC/M	\$0.0000	\$0.0000	\$0.0035	\$0.0000			\$0.0000	\$0.0032	\$0.0000
	BC/NM	\$0.0000	\$0.0000	\$0.0035	\$0.0000			\$0.0000	\$0.0032	\$0.0000
	BC/M	\$0.0000	\$0.0000	\$0.0035	\$0.0000			\$0.0000	\$0.0032	\$0.0000
CR	NM					\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
	M					\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000

**Table B3c: Unit Piece Processing Costs By Bundle & Container Presort Level & Piece Characteristics**  
**Includes Weight Related Piece Handling Costs**

Bundle Level	Piece Type	Sacks						Pallets		
		MADC	ADC	3-D	5-D	5-D CR	CR	ADC	3-D	5-D
MADC	NBC/NM	\$0.3411								
	NBC/M	\$0.2112								
	BC/NM	\$0.2935								
	BC/M	\$0.1709								
ADC	NBC/NM	\$0.2156	\$0.2037					\$0.2037		
	NBC/M	\$0.1608	\$0.1561					\$0.1561		
	BC/NM	\$0.1882	\$0.1782					\$0.1782		
	BC/M	\$0.1322	\$0.1286					\$0.1286		
3d	NBC/NM	\$0.1972	\$0.1869	\$0.1824				\$0.1855	\$0.1824	
	NBC/M	\$0.1434	\$0.1403	\$0.1359				\$0.1390	\$0.1359	
	BC/NM	\$0.1742	\$0.1661	\$0.1621				\$0.1651	\$0.1621	
	BC/M	\$0.1184	\$0.1168	\$0.1127				\$0.1157	\$0.1127	
5d	NBC/NM	\$0.1120	\$0.0936	\$0.0932	\$0.0814			\$0.0830	\$0.0851	\$0.0814
	NBC/M	\$0.0780	\$0.0682	\$0.0683	\$0.0585			\$0.0598	\$0.0621	\$0.0585
	BC/NM	\$0.1061	\$0.0910	\$0.0914	\$0.0814			\$0.0827	\$0.0850	\$0.0814
	BC/M	\$0.0650	\$0.0573	\$0.0581	\$0.0496			\$0.0506	\$0.0531	\$0.0496
CR	NM					\$0.0000	\$0.0000	\$0.0027	\$0.0010	\$0.0000
	M					\$0.0000	\$0.0000	\$0.0020	\$0.0007	\$0.0000

## SERVICE TERRITORY OF ORIGINATING FACILITIES, FOR CONTAINERS ENTERED AT ORIGIN

Table C1: Service Territory Of OAO, For Containers Entered At OAO				
	DSCF	DADC	DTH	OTH
MADC SACK	0.00%	0.00%	0.00%	100.00%
ADC SACK	0.00%	11.76%	6.25%	81.99%
3DG/SCF SACK	17.51%	20.68%	9.67%	52.14%
5DG SACK	37.15%	28.42%	9.21%	25.23%
5DG RTS SACK	28.52%	46.62%	1.96%	22.90%
CR SACK	25.70%	54.65%	15.55%	4.11%
ADC PALLET	0.00%	0.00%	5.70%	94.30%
3DG/SCF PALLET	5.77%	1.77%	0.00%	92.46%
5DG PALLET	26.36%	73.64%	0.00%	0.00%

Table C2: Service Territory Of OSCF, For Containers Entered At OSCF			
	DADC	DTH	OTH
MADC SACK	0.00%	0.00%	100.00%
ADC SACK	5.01%	7.96%	87.03%
3DG/SCF SACK	11.02%	5.90%	83.08%
5DG SACK	20.74%	14.14%	65.12%
5DG RTS SACK	24.99%	15.38%	59.63%
CR SACK	49.66%	3.02%	47.32%
ADC PALLET	6.95%	4.22%	88.83%
3DG/SCF PALLET	10.04%	12.08%	77.88%
5DG PALLET	19.87%	5.67%	74.46%

Table C3: Service Territory Of OADC, For Containers Entered At OADC		
	DTH	OTH
MADC SACK	0.00%	100.00%
ADC SACK	13.29%	86.71%
3DG SACK	15.88%	84.12%
5DG SACK	34.87%	65.13%
5DG RTS SACK	50.14%	49.86%
CR SACK	32.59%	67.41%
ADC PALLET	13.64%	86.36%
3DG PALLET	20.83%	79.17%
5DG PALLET	20.95%	79.05%

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with § 12 of the rules of practice.

s/\_\_\_\_\_  
Timothy L. Keegan

April 26, 2004  
Washington, D.C.

1           CHAIRMAN OMAS: Mr. Stralberg, have you had  
2 an opportunity to examine the packet of designated  
3 written cross-examination that was made available to  
4 you this morning in the hearing room?

5           THE WITNESS: Yes. I looked through them.  
6 They seem okay.

7           CHAIRMAN OMAS: If the questions contained  
8 in that packet were posed to your orally today, would  
9 your answers be the same as those provided in writing?

10          THE WITNESS: Yes.

11          CHAIRMAN OMAS: Are there any corrections or  
12 additions you would like to make at this time?

13          THE WITNESS: No. I don't have any.

14          CHAIRMAN OMAS: Counsel, would you please  
15 provide two copies of the corrected designated written  
16 cross-examination of Witness Stralberg to the  
17 reporter? That material is received into evidence,  
18 and it is to be transcribed into the record.

19                           (The document, previously  
20 identified as Exhibit No. TW  
21 et al.-T-2, was received in  
22 evidence.)

23        //

24        //

25        //

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

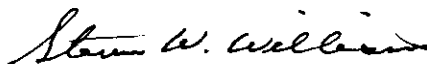
Complaint of Time Warner Inc. et al.  
Concerning Periodicals Rates

Docket No. C2004-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF TW, CONDE NAST, NEWSWEEK, RDA, AND TV  
GUIDE  
WITNESS HALSTEIN STRALBERG  
(TW ET AL.-T-2)

<u>Party</u>	<u>Interrogatories</u>
American Business Media	ABM/TW et al.-T2-1-2, 4-5, 9, 11-18, 20-21, 23, 26-34, 36 ABM/TW et al.-T1-3 redirected to T2 ABM/TW et al.-T3-42 redirected to T2
American Postal Workers Union, AFL-CIO	ABM/TW et al.-T2-1, 5, 32, 34, 36  ABM/TW et al.-T1-3 redirected to T2 ABM/TW et al.-T3-42 redirected to T2 MH/TW et al.-T2-2, 6-7, 9
McGraw-Hill Companies, Inc., The	MH/TW et al.-T2-1-6, 8, 11
United States Postal Service	ABM/TW et al.-T2-3, 6-8, 22 MH/TW et al.-T2-4-5, 8, 11

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
TW, CONDE NAST, NEWSWEEK, RDA, AND TV GUIDE  
WITNESS HALSTEIN STRALBERG (T-2)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
ABM/TW et al.-T2-1	ABM, APWU
ABM/TW et al.-T2-2	ABM
ABM/TW et al.-T2-3	USPS
ABM/TW et al.-T2-4	ABM
ABM/TW et al.-T2-5	ABM, APWU
ABM/TW et al.-T2-6	USPS
ABM/TW et al.-T2-7	USPS
ABM/TW et al.-T2-8	USPS
ABM/TW et al.-T2-9	ABM
ABM/TW et al.-T2-11	ABM
ABM/TW et al.-T2-12	ABM
ABM/TW et al.-T2-13	ABM
ABM/TW et al.-T2-14	ABM
ABM/TW et al.-T2-15	ABM
ABM/TW et al.-T2-16	ABM
ABM/TW et al.-T2-17	ABM
ABM/TW et al.-T2-18	ABM
ABM/TW et al.-T2-20	ABM
ABM/TW et al.-T2-21	ABM
ABM/TW et al.-T2-22	USPS
ABM/TW et al.-T2-23	ABM
ABM/TW et al.-T2-26	ABM
ABM/TW et al.-T2-27	ABM
ABM/TW et al.-T2-28	ABM
ABM/TW et al.-T2-29	ABM
ABM/TW et al.-T2-30	ABM
ABM/TW et al.-T2-31	ABM
ABM/TW et al.-T2-32	ABM, APWU
ABM/TW et al.-T2-33	ABM
ABM/TW et al.-T2-34	ABM, APWU
ABM/TW et al.-T2-36	ABM, APWU
ABM/TW et al.-T1-3 redirected to T2	ABM, APWU
ABM/TW et al.-T3-42 redirected to T2	ABM, APWU

MH/TW et al.-T2-1  
MH/TW et al.-T2-2  
MH/TW et al.-T2-3  
MH/TW et al.-T2-4  
MH/TW et al.-T2-5  
MH/TW et al.-T2-6  
MH/TW et al.-T2-7  
MH/TW et al.-T2-8  
MH/TW et al.-T2-9  
MH/TW et al.-T2-11

McGraw-Hill  
APWU, McGraw-Hill  
McGraw-Hill  
McGraw-Hill, USPS  
McGraw-Hill, USPS  
APWU, McGraw-Hill  
APWU  
McGraw-Hill, USPS  
APWU  
McGraw-Hill, USPS



## RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

ABM/TW et al.-T2-1. Please refer to your response, after referral, to ABM/TW et al.-T1-3. For each separate column for which per copy postage figures are provided, state the number of copies (reasonable rounding is acceptable) to which those rates apply. Alternatively, if it would be less burdensome, please provide both the approximate average circulation per issue and a good faith estimate of the annual postage at present and "proposed" rates for each periodical identified in the response.

ABM/TW et al.-T2-1. Table 1 contains the piece volumes per issue that correspond to the information presented in the response to ABM/TW et al.-T1-3. Each row in Table 1 corresponds to a column in one of the tables in the earlier response. In the case of three comailed groups of Condé Nast/Fairchild publications, the volumes are given for each publication in each group, as well as the total for that group.<sup>1</sup>

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<sup>1</sup> The three co-mailing pools for which only pool aggregate data were presented in the response to ABM/TW et al.-T1-3 are: a five-publication pool consisting of Condé Nast's Allure, Gourmet, GQ, Self and Vogue; a two-publication pool consisting of Condé Nast's House and Garden and Golf Digest; and a four-publication pool consisting Fairchild Publications' DNR, Footware News, Supermarket News and Home Furnishing News. In the case of other comailed publications, such as Time Inc.'s Parenting, Baby Talk, and Health; and Reader's Digest Association's Family Handyman, American Woodworker and RD Large Type, the ABM/TW-T1-3 response included all information requested except that the postage that would be paid under the proposed rates is unavailable for reasons explained in the earlier response.

<b>Table 1: Pieces/Issue in response to ABM/TW et al.-T2-1</b>			
Table in ABM/TW et al.-T1-3 Response	Title	Volume (pieces/issue)	Comments
TW-1	Time	3,977,381	
TW-1	Sports Illustrated	3,323,687	
TW-1	People	2,446,528	
TW-1	Entertainment Weekly	1,842,991	
TW-1	Time for Kids	114,686	
TW-2	BMX	16,959	
TW-2	Motocross	37,038	
TW-2	Ride BMX	18,495	
TW-2	Skateboarding	66,601	
TW-2	Snowboarding	63,658	
TW-2	Surf	32,564	
TW-3	Coastal Living	444,101	
TW-3	Cooking Light	1,308,587	
TW-3	Field & Stream	1,270,058	
TW-3	Fortune	842,421	
TW-3	Golf	1,190,680	
TW-3	In Style	838,815	
TW-3	Money	1,781,577	
TW-3	Outdoor Life	751,210	
TW-3	People en Espanol	308,485	
TW-3	Popular Science	1,267,993	
TW-4	Progressive Farmer	599,217	
TW-4	Real Simple	1,169,973	
TW-4	Ski	245,277	
TW-4	Skiing	294,742	
TW-4	SI for Kids	695,289	
TW-4	Teen People	1,105,195	
TW-4	This Old House	882,666	
TW-4	Sunset	1,207,735	
TW-4	Business 2.0	586,437	
TW-4	Yachting	96,479	
TW-5	Southern Living	2,355,590	
TW-5	Southern Accents	311,780	
TW-5	Saltwater Sportsman	148,675	
TW-5	Motorboating	141,018	
TW-5	Parenting	2,124,694	
TW-5	Babytalk	1,381,460	
TW-5	Health	1,294,843	
TW-6	Cooking Light	403,635	Supplements
TW-6	Southern Accents	79,244	Supplements
TW-6	Coastal Living	91,008	Supplements
TW-6	In Style	106,439	Supplements
TW-6	Money	17,938	Supplements
TW-6	Real Simple	10,663	Supplements
TW-6	SI for Kids	17,551	Supplements
TW-6	Southern Living	82,736	Supplements
TW-6	Teen People	19,853	Supplements

<b>Table 1: Pieces/Issue in response to ABM/TW et al.-T2-1 (Continued)</b>			
Table in ABM/TW et al.-T1-3 Response	Title	Volume (pieces/issue)	Comments
CN-1	Allure	730,829	Comailed
CN-1	G.Q.	541,296	Comailed
CN-1	Gourmet	787,374	Comailed
CN-1	Self	938,348	Comailed
CN-1	Vogue	781,038	Comailed
CN-1	Comail total:	3,778,885	Comailed
CN-1	Bon Appetit	1,087,157	
CN-1	The New Yorker	920,991	
CN-1	Glamour	1,392,461	
CN-1	Vanity Fair	752,414	
CN-1	Modern Bride	160,309	
CN-1	Brides	127,165	
CN-1	Traveler	682,900	
CN-1	Teen Vogue	351,859	
CN-1	House & Garden	336,844	Comailed
CN-1	Golf Digest	738,446	Comailed
CN-1	Comail total:	1,075,290	Comailed
CN-1	Golf world	179,244	
CN-2	DNR	10,508	Comailed
CN-2	Footware News	14,583	Comailed
CN-2	Supermarket News	31,472	Comailed
CN-2	Home Furnishing News	16,699	Comailed
CN-2	Comail Total	73,262	Comailed
CN-2	Details	313,842	
CN-2	Childrens's Business	12,185	
CN-2	Executive Technology	30,273	
CN-2	In Furniture	23,292	
CN-2	W Magazine	431,514	
CN-2	Women's Wear Daily	28,560	
CN-3	Bon Appetit	28,067	Supplements
CN-3	Brides	5,890	Supplements
CN-3	Glamour	27,806	Supplements
CN-3	House & Garden	35,257	Supplements
CN-3	Teen Vogue	13,886	Supplements
CN-3	Vanity Fair	16,950	Supplements
CN-3	Golf Digest	7,160	Supplements
NW-1	Newsweek	2,856,420	
NW-1	Budget Travel	426,512	
TV-1	TV Guide	6,285,141	

<b>Table 1: Pieces/Issue in response to ABM/TW et al.-T2-1 (Continued)</b>			
<b>Table in ABM/TW et al.-T1-3 Response</b>	<b>Title</b>	<b>Volume (pieces/issue)</b>	<b>Comments</b>
RD-1	Reader's Digest	10,714,401	
RD-1	Family Handyman	1,121,840	Comailed
RD-1	American Woodworker	296,751	Comailed
RD-1	RD Large Type	656,557	Comailed
RD-1	Selecciones	285,705	
RD-1	Taste of Home	4,194,396	
RD-1	Birds & Blooms	1,957,124	
RD-1	Quick Cooking	2,699,170	
RD-1	Country	1,157,640	
RD-1	Country Woman	1,215,720	
RD-1	Light & Tasty	1,455,997	
RD-1	Reminisce	1,088,311	
RD-1	Reminisce Extra	340,799	
RD-1	Crafting Traditions	249,769	
RD-1	Country Discoveries	340,481	
RD-1	Farm & Ranch Living	393,594	
RD-1	Country Extra	328,439	

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-2. Is it your understanding that increasing levels of worksharing in the past, such as application of bar codes, increased drop shipping and increased palletization, did not reduce the Postal Service's Periodicals processing costs to the extent that should have been experienced? If so, please state all of the factors that, in your view, produced this result.

ABM/TW et al.-T2-2. While it is unclear to me precisely what you mean by "the extent that should have been experienced," I can offer the following comments.

In the case of barcode application by mailers, I believe it may be true that the savings produced often have been less than the discounts offered, for reasons that include the following:

- (1) unlike other worksharing discounts, some barcode discounts have been set with a passthrough much higher than 100% of projected cost savings;
- (2) many pre-barcode flats are sorted manually, often to a greater extent than assumed in the cost studies used to justify the discounts;
- (3) placement of OCR's on all flats sorting machines and advances in OCR technology have reduced the importance of pre-barcoding; and
- (4) address quality problems may reduce the effectiveness of barcodes.

On the other hand, dropshipping and palletization are both effective means to bypass postal operations and thereby avoid costs. The value of these forms of worksharing has never been fully recognized in the Periodicals rate structure.

My testimonies in Dockets No. R90-1, R94-1, R97-1 and R2000-1 documented and examined possible explanations for the unusually large increase in Periodicals costs that started in FY87 and continued until at least very recently. I demonstrated that those cost increases occurred in spite of numerous advances in mail processing technology that had been expected to reduce costs, and in spite of extensive efforts by Periodicals mailers to avoid postal operations through worksharing.

My present testimony does not address the reasons for the current high costs of postal operations. But I believe that, with an eighteen year history of increasing costs, Periodicals mailers and the Commission must conclude that the best hope for cost containment and cost reduction is to bypass as many postal handling and transportation operations as possible, leaving to the Postal Service the job it does best, namely to deliver the mail. The cost analysis presented in my testimony and the corresponding rate recommendations presented by witness Mitchell are intended to provide incentives that will minimize the combined mailer and Postal Service costs.

To speculate that increased dropshipping and palletization somehow has caused the increase in Periodicals costs turns reality upside down. When Periodicals bypass a postal operation they cause no cost at that operation and can be charged with no costs by the Postal Service's accounting system.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-3. As a general matter, would Time Warner's Periodicals postage bill benefit from a shift in cost responsibility from pieces to pounds? Explain your answer.

ABM/TW et al.-T2-3. The answer to this question might depend on exactly how the piece and pound rates are structured. However, an average Time Warner Periodical's piece weighs more than the average Outside County piece, and so it can probably be said that as a "general matter" Time Warner would not benefit from a shift in cost responsibility from pieces to pounds.

More precisely, based on an accumulation of postal statement data for Time Warner's Periodicals, its average piece in calendar year 2003 weighed 8.07 ounces. According to the RPW piece and weight statistics reported for FY03, an average Outside County Periodicals piece weighed 7.06 ounces, while an average regular rate piece weighed 7.89 ounces.

Time Warner et al.'s proposal in this case is to shift some cost responsibility away from both pieces and pounds, by properly identifying the costs of bundles, sacks and pallets. At the same time, it is proposed to make pound rates more cost based by extending the zoning to editorial matter, while maintaining the overall benefit given to editorial matter.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-4. Is the term "hot pubs" familiar to you? If so, please explain how that term is used in postal processing plants and how it affects the operations of those plants.

ABM/TW et al.-T2-4. Yes. I do not believe it is an official Postal Service term, but "hot pubs" is used informally in some postal facilities to refer to daily and weekly publications. Mail processing clerks are instructed to give priority to such publications over monthly publications when it makes a difference in meeting a critical dispatch. Some facilities post lists of "hot pubs" that employees are asked to pay special attention to.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-5. If certain Periodicals impose higher processing or other costs on the Postal Service by virtue of being characterized as "hot pubs," how, if at all, are those additional costs reflected in your calculations?

ABM/TW et al.-T2-5. My testimony addresses only costs that can be quantified by application of existing data and cost models, and whose existence has been established. There can be no dispute that the Postal Service does incur certain costs each time it handles a bundle, a sack or a pallet, and that those costs depend on factors such as presort level and entry point. I believe that I have demonstrated the feasibility of quantifying those costs.

There are other costs whose existence cannot be doubted but that I did not attempt to analyze, because I do not know a feasible way to analyze them, such as costs related to forwarding. With regard to the costs you say may be imposed by characterizing certain periodicals as "hot pubs," such costs are to my knowledge not measurable, their existence has not been proven, and they may well not exist at all.

Let me elaborate. Many years ago I devoted considerable time and effort to the study of peak load costs in mail processing.<sup>1</sup> In the context of postal mail processing, peak loads occur when a large quantity of work has to be accomplished in a short period of time, requiring the availability of a large workforce who then must be paid not only for the short duration of the peak but for an entire eight hour day, during part of which a smaller staff might have been sufficient. Peak loads occur when mail collected from mail boxes and postal customers arrives at a processing facility only a few hours before it must be dispatched to other plants in order to meet First Class delivery standards. Another peak occurs at many plants in the early morning, when in a short time span incoming mail must undergo several operations (including delivery point sequencing of letters) and then be dispatched to the DDU's in time for carriers to begin their rounds.

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<sup>1</sup> See Docket No. R87-1, Time-T-4, Direct testimony of Halstein Stralberg, Concerning Peak Load Costs, and Docket No. R80-1, USPS-RT-5, Rebuttal Testimony of Halstein Stralberg.

If it could be shown that so-called “hot pubs” cause peak loads by forcing postal managers to add staff that would not have been needed if they were handled outside the peak, then one might argue that they incur additional costs by virtue of being “hot.” However, there is to my knowledge no evidence that this occurs. In fact, Periodicals mailers who dropship are typically assigned windows for entering their mail that are designed to avoid the possibility of contributing to peak loads. By entering their mail outside the processing peak, Periodicals mailers, whether daily, weekly or monthly, may in fact be helping to reduce peak load costs.

As an example, when Time Inc. makes arrangements with an SCF to enter a product, e.g., People magazine, it is assigned a critical entry time (CET). If for any reason the CET is missed, the facility does not guarantee to process the product on the same day. The CET's vary by facility but are generally between noon and 5 pm. They are designed to assure that Periodicals will be available for processing before the peak associated with arrival of the collection mail. Because flats sorting machines run different sorting schemes at different times of day, Periodicals that miss their CET are unlikely to be processed until much later and may be delivered a day later than normal.

The mere fact that an employee may be told to process a container of weekly publications before he starts on a container of monthly publications does not in itself add costs. Adding extra staff in order to process weekly/daily publications faster would add costs but I do not believe that this occurs.

I think one could also argue that the greater urgency created by a “hot” publication may in fact cause it to be worked faster, especially at manual operations. Having watched on occasions the very slow pace at which Standard flats or monthly Periodicals flats sometimes get worked at, for example, manual bundle sorting or “prep” operations, it has occurred to me that if those flats and bundles were known to be “hot” they might be processed a lot faster, in which case they would presumably incur lower rather than higher costs by virtue of being characterized as “hot.”

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-6. In footnote 4 at page 6, you state that a mailer may have a good, service-related reason to mail a few pieces in a sack. Please explain the circumstances under which such good reason might exist.

ABM/TW et al.-T2-6. I am not familiar with all the reasons mailers may have for mailing a few pieces in a sack, but the practice appears to be widespread, even among high-volume mailers. The footnote you refer to simply suggests that mailers should have the flexibility to continue the practice if they are prepared to pay for the extra costs.

There appears to be at least a perception that pieces in a sack with a high presort level will travel faster through the postal system than pieces in a sack or pallet with lower presort. I am not sure that this is always so. For example, if a 5-digit sack is entered into the postal system far from its destination, it will have to be sorted several times, and in the process delays could easily occur. A sack with lower presort (e.g., a 3-digit sack) would be opened earlier, i.e., it would require fewer sack sorts, but the pieces or bundles inside it would have to undergo more bundle and/or piece sorting. I am not aware of any studies that document how much faster individual pieces travel through the system because they are placed in sacks with a high level of presort.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-7. Please confirm that, under the complainants' proposal here, a small circulation Periodical that might need to mail in, for example, low-copy, 5-digit sacks in order to obtain adequate service will be required to pay what are deemed by you to be the true costs of obtaining that service, but that a daily publication, for example, that imposes higher costs not associated with bundle, sack or pallet size on the Postal Service as a result of its service needs will not be assigned responsibility for those costs. If you cannot confirm, please explain why.

ABM/TW et al.-T2-7. See my responses to ABM/TW et al.-T2-5 and ABM/TW et al.-T2-6.

I do not believe the practice you describe has been proven to be a reliable method for obtaining "adequate" service.

I can confirm that my testimony addresses costs that can be quantified based on available data and that it does not address costs that cannot be quantified and whose existence has not been proven. The practice of sending sacks with just a few pieces in them through the postal system is in my view extremely costly. Its costs, which can be calculated, ought to be known to the mailers who engage in it.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-8. Please explain why, at page 7, line 23, you state that certain savings depend upon whether Periodicals would have been sorted on an AFSM 100 or manually, but do not mention the FSM 1000.

ABM/TW et al.-T2-8. Flats sorting on the AFSM-100 is substantially faster than either manual or FSM-1000 sorting. By comparison, the difference in productivity between FSM-1000 and manual sorting is relatively small. According to the Postal Service's R2001-1 mail flow model, FSM-1000 machines are no longer used for incoming secondary flats sorting, the sorting scheme performed most often on Periodicals flats.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-9. At page 9, lines 26-27, you give pieces thicker than  $\frac{3}{4}$  inch as an example of non-machinable pieces. What other types of Periodicals are considered non-machinable?

ABM/TW et al.-T2-9. Please note that, consistent with the Postal Service's R2001-1 mail flow model, I define machinable as meaning machinable on AFSM-100 machines.

DMM Section C820.2 describes the requirements that flats must meet to be considered AFSM-100 machinable. Section C820.4 describes additional requirements that apply to polywrapped flats.

In practice, it has been my observation that facilities often process some flats on AFSM-100 machines that do not meet all the DMM requirements for AFSM-100 machinability. For example, the AFSM-100 weight limit for Periodicals flats is given in DMM section C820.2.4 as 20 ounces. But in a facility I visited recently I observed that copies of In Style weighing close to 2.5 pounds were sorted on an AFSM-100 without apparent problems. At the same visit, some flats polywrapped in material approved only for use on UFSM 1000 (formerly FSM 1000) machines were sorted on an AFSM-100, again without apparent problems. On the other hand, it is my impression that oversized flats, as defined in section C820.2.3 (over 12 inches high, or over 15 inches long, or over  $\frac{3}{4}$  inches thick) will not be sorted on AFSM-100 machines.

Additionally, I believe most newspapers are not sorted on AFSM-100 machines, although there appears to be no explicit statement to that effect in DMM section C820.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-11. With respect to your testimony at page 17, lines 1-3, please provide your understanding of the type of Periodicals mail that is drop shipped in sacks.

ABM/TW et al.-T2-11. I am not aware of any statistic that provides insight in the characteristics of sacked Periodicals that are dropshipped. I would assume, however, that the category includes many local or regional publications, as well as some sacks of time sensitive publications that are airlifted.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-12. At page 18, line 12, you state that the LR-1-332 model was changed by you to use "PRC costing methodology." Please confirm that this change results in a greater amount of cost attribution.

ABM/TW et al.-T2-12. Confirmed that the PRC costing methodology attributes more costs than the Postal Service's methodology.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-13. At page 18, line 12, you state that the LR-1-332 model was changed by you to use "PRC costing methodology." Please explain the reason why this change was necessary.

ABM/TW et al.-T2-13. I was advised by Time Inc. counsel to use the PRC methodology because it is the one that the Commission has ruled appropriate. My present testimony does not address issues related to volume variability or cost attribution. I presume that when/if the Commission recommends the adoption of cost-based rates along the lines proposed in this docket, it will base those rates on the costing methodology it considers most appropriate.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-14. At page 18, line 12, you state that the LR-1-332 model was changed by you to use "PRC costing methodology." Please explain, in relative terms, how your costs and witness Mitchell's resulting rates would have been different if this change were not made.

ABM/TW et al.-T2-14. There would be no difference at all in the recommended pound rates because there is no difference between the Postal Service and the PRC with regard to the attribution of transportation costs. Proposed piece rate differentials based on machinability, presorting and pre-barcoding would be somewhat smaller. The proposed bundle, sack and pallet unit charges would also be slightly smaller.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-15. At page 18, line 12, you state that the LR-I-332 model was changed by you to use "PRC costing methodology." As a general matter, does Time Warner support use of the PRC methodology as opposed to the methodology used in LR-I-332?

ABM/TW et al.-T2-15. I am not a spokesperson for Time Warner. The position of Time Warner with regard to attribution of postal costs was described in its briefs submitted in the R97-1 and R2000-1 rate cases and in its presentation to the Presidential Commission on the Postal Service.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-16. At page 18, line 12, you state that the LR-1-332 model was changed by you to use "PRC costing methodology," and at page 28, you state that you used PRC rather than Postal Service assumptions of volume variability. Is the second statement an explanation of the change identified in the first statement?

ABM/TW et al.-T2-16. The difference between the Postal Service's and the Commission's costing methodology, at least with regard to mail processing costs, is mostly, though not totally, about volume variability at different cost pools. The piggyback factors applied to different mail processing cost pools also differ between the two methodologies.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-17. Does Time Warner agree that the PRC assumptions of volume variability to which you refer at page 28, line 18, are more accurate than those of the Postal Service? If not, why did you make this change?

ABM/TW et al.-T2-17. Please refer to my answers to ABM/TW et al.-T2-13 and ABM/TW et al.-T2-15.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-18. In general terms, what is the effect on the rates proposed by the complainants of your substituting the PRC assumptions of volume variability for those of the Postal Service?

ABM/TW et al.-T2-18. Please refer to my answer to ABM/TW et al.-T2-14.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-20. With respect to bundle breakage costs, addressed at page 21, line 25, through page 22, line 5, does your model use actual bundle breakage data from a prior time period? If so, from what period?

ABM/TW et al.-T2-20. LR-I-332 relied on the bundle breakage statistics documented in LR-I-297, which describes a data collection performed in the fall of 1999. I am not aware of any more recent source of data on bundle breakage. As described in my testimony, I adopted the LR-I-332 method of bundle breakage analysis.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-21. On page 29, lines 1-12, are you assuming that the time it takes to move a pallet through a postal facility is related only to the distance moved and not the configuration, congestion, availability of a forklift when and where needed or other factors associated with particular facilities?

ABM/TW et al.-T2-21. I have made no assumption regarding the relative impact of the factors you mention upon the time it takes to cross-dock a pallet. The section of my testimony that you refer to traces the origins of the different estimates of pallet cross-docking productivity used in the past by Postal Service witnesses. It points out that the estimate which originated in measurements taken at an SCF (i.e., the Buffalo SCF) indicates faster pallet cross-docking than the estimate that originated in measurements at a BMC and concludes that the former is more appropriate to use when analyzing pallet cross-docking at SCF's and ADC's.

Please see also my response to ABM/TW et al.-T2-22.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-22. Please explain whether or not it would be fair to assume that cross docking a pallet in a large facility designed for cross docking operations could be faster than cross docking a pallet in a smaller facility not designed for such an operation.

ABM/TW et al.-T2-22. I don't know which particular large and small facilities you have in mind, but in general I believe that, contrary to your suggestion, pallet transfer in smaller processing facilities is faster than it is in larger facilities. The BMC's are examples of large postal facilities. They were designed and built before the use of pallets had become widespread. I understand that some BMC's, in order to compensate for this design deficiency, rely on smaller nearby facilities, often referred to as annexes, for cross docking of Periodicals pallets.

If by "smaller facility" you are thinking of smaller SCF's, I believe that by now they all have the capability to handle pallets. Smaller SCF's, as well as the even smaller DDU's, tend to have only one platform area, whereas large processing facilities may have several platforms, located for example on opposite sides of the facility, or in some cases at different levels. Such facility layouts tend to complicate transfer of pallets and other rolling stock from one platform to another.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-23.        How fast does a forklift carrying a pallet travel if unimpeded by congestion?

ABM/TW et al.-T2-23.        I don't know, and I rely on no assumption regarding the maximum speed of a forklift. I would assume it depends on the weight of the pallet carried as well as the strength of the motor used by a particular forklift.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-26. With reference to your testimony at page 30, lines 1-6, how are bundles typically sorted at a DDU?

ABM/TW et al.-T2-26. The bundles that are sorted at a DDU are typically carrier route bundles. They are typically lifted from the pallet and placed either on the ledge of each carrier's case or in an area such as a shelf or a cubbyhole for each carrier where the carriers can pick them up.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-27. With reference to your testimony at page 30, lines 1-6, please state your understanding of how many DDUs do not have loading docks and forklifts necessary to receive pallets.

ABM/TW et al.-T2-27. I do not know any number. However, it is my impression that today DDU's with volume sufficiently large that some mailers are able to make up separate pallets to them generally are equipped to receive pallets.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-28. If a mailer prepares a 5-digit pallet destined to a DDU without the ability to offload and move a pallet to the bundle sorting operation, how is that pallet handled by the Postal Service?

ABM/TW et al.-T2-28. It is my understanding that the Postal Service is not obligated to accept pallets at such facilities and that mailers therefore will not make up pallets for such facilities. It is also my understanding that facilities without the ability to handle pallets tend to be very small facilities to which mailers are unlikely to have sufficient volume to make up a separate pallet.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-29. With reference to your testimony at page 30, lines 18-22, where you state that you might have underestimated such costs as shaking out a sack, is it also possible that you might have underestimated some costs associated with pallets?

ABM/TW et al.-T2-29. It is possible. Generally, however, I believe it is just as likely that they may have been overstated.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-30. Do you agree that, over time, the Postal Service has made changes to its operations, such as adding loading docks to delivery units and improving the intake process at SPBSs, that are designed to facilitate the handling of pallets and that it has made other changes, such as the elimination of sack sorters, that render the handling of sacks more costly? If not, do you agree with either of these propositions?

ABM/TW et al.-T2-30. Many older postal facilities, including the BMC's, were designed for sacks, not for pallets. Over the years, facilities have been upgraded and modified to facilitate the movement of pallets and rolling containers between trucks, platforms and work areas. Today, all processing facilities and most large DDU's can handle pallets.

I disagree with your theory that the facility modifications that have occurred have led to more costly sack handling. Back in the 1970's and, I believe, most of the 1980's, sacks requiring long-haul transportation were typically bedloaded, a slow and costly process that required an equally slow and costly unloading process at the other end. BMC's and other sack-sorter equipped facilities would extend conveyor belts into trucks on which sacks were placed one at a time for unloading, with a similar process for loading the sacks on the outbound platform after they had been sorted.

Today, however, sacks are typically transported between facilities, including long-haul transportation, in rolling containers such as APC's, OTR's or hampers, or in "postal paks." All of these are easily moved on and off trucks and across platforms. In my opinion, the benefit of this change in operating mode far outweighs the effect of removing a few space consuming sack sorters no longer deemed useful. Sack sorters are, I believe, one of the main reasons for the extensive breakage problem experienced by bundles that travel in sacks.

While sacks may also have benefited from the upgrading that has occurred in facility layout, they remain a far less efficient and less secure means of transporting flats bundles than pallets.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-31. You make numerous assumptions throughout your testimony and you make certain changes to data used in other cases. In reaching your assumptions and deciding whether changes are appropriate, did you in any instance consider the impact of a change or an assumption on the rates that would be paid by Time Warner? If so, please provide the details and identify the alternative(s) that you chose not to use.

ABM/TW et al.-T2-31. No. In fact, it was only after completing the cost model described in my testimony that I addressed the problem of how to determine the impact the proposed rates would have on a particular publication. Only after completing the analysis required to respond to ABM/TW et al.-T1-3 could it be said that we now know how the proposed rates would affect each of Time Warner's publications.

My main concerns in developing the model described in my testimony were that: (1) the model should reflect actual mail processing reality as closely as possible without being excessively complex; (2) it must correspond to certain known aggregate measures for test year TY03, such as CRA costs and billing determinant volumes; and (3) the model needed to rely on existing Postal Service data.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-32. Please state your understanding of the Postal Service's present plans with respect to delivery point sequencing of flats, including Periodicals.

ABM/TW et al.-T2-32. It is my understanding that the Postal Service's engineers are considering two different concepts for automating the sequencing of flats, called FSS (flats sequencing system) and DPP (delivery point packaging). Neither system is ready to be implemented, and the Postal Service has not decided (at least not publicly) which system it will use or whether it will use any of them. Both approaches have potential problems that would need to be resolved. One problem is that non-machinable flats might become much more expensive to handle. Another is that large volumes of flats already being entered at the DDU's would have to be brought back to the processing plants, causing additional transportation costs as well as adding to an already severe congestion. Bringing mail currently entered at DDU's back to the plants could have a severe impact on local mailers, including in-county mailers for whom the plant/SCF is very much outside the county.

In any case, I do not think the possibility that the Postal Service may change its processing environment in the future should prevent one from seeking the best possible rate structure in today's environment. The need to consider costs incurred by bundles, sacks and pallets and the desirability of encouraging mailers to dropship at least to the destinating SCF will also exist in a future environment that may include delivery point sequencing of flats.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-33. . If the Postal Service proceeds with delivery point sequencing of flats, including Periodicals, at what type of facility (that is, DDU, SCF, P&DC, etc) is the sequencing likely to be done?

ABM/TW et al.-T2-33. I believe the Postal Service has considered the possibility of sequencing both at the DDU and the SCF, but that it is most likely to be at the SCF. However, I am not privy to the Postal Service's most recent thinking about this matter.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-34. Please provide an estimate of the postage that would be paid at the current Standard rates for the main file issues of the following publications that are analyzed in your response to ABM/TW-T1-3, redirected from witness Mitchell: Time, Time for Kids, In Style, Modern Bride, Golf World, Reader's Digest, Newsweek, TV Guide. In response to this question, you may, if you choose, assume that the current bundling and other mailing characteristics comply with the somewhat different standards that apply to Standard mail. If any of these publications could not be mailed at Standard rates, provide the information for the lowest rate at which it could be mailed (other than Periodicals).

ABM/TW et al.-T2-34. If they could no longer mail under Periodicals rates, publications would need to consider the use of several alternative subclasses, none of which could accommodate all publications. Due to differences in mail piece specifications (e.g., weight limitations), preparation requirements, entry facilities and incentives for worksharing and dropshipping, one cannot answer questions of the type posed without making several assumptions. The assumptions described below, which I employed in order to produce estimates for each listed publication, may not correspond to how the publications would actually use the alternative rate structures. They most certainly do not reflect the extensive product redesign that publishers would undertake in response to a radically different rate structure.

Two of the publications listed (In Style and Modern Bride) weigh more than one pound, at least in the particular issues that I analyzed in my response to ABM/TW et al. -T1-3. I assume these would use bound printed matter (BPM) in the absence of Periodicals rates. I assume the others would use Standard ECR for their carrier route sorted component and the regular standard subclass for their non-carrier route portion.

Both Standard and BPM mailers are encouraged to enter their mail at the destinating BMC (DBMC) if they cannot bring it to the DSCF or DDU, and they are given rate incentives for doing so. Periodicals mailers, on the other hand, are given rate incentives for bringing their mail to the DADC, if they cannot bring it to the DDU or DSCF, and are not encouraged to enter mail at the DBMC. All the listed publications, with the exception of Golf World, enter at the DADC most of the volume that they do not

enter at the DSCF. (Golf World's non-SCF volume is mostly in Zones 1&2). Because there are fewer BMC's than ADC's, publishers would find it easier to accumulate enough volume for DBMC entry than they now do for DADC entry. For the purposes of this analysis I have therefore assumed that the volumes currently entered at the DADC or in Zones 1-4 would be entered at the DBMC if mailed as Standard/BPM.

The alternative subclasses all have higher cost coverage than Periodicals, and for that reason alone one would expect Periodicals that switched to pay higher rates. In particular, ECR, the subclass I assume would be mostly used by Time, Newsweek, TV Guide and Reader's Digest, has a cost coverage of 201% under PRC costing.<sup>1</sup> Within both Standard subclasses there are both regular and nonprofit rates. Nonprofit Standard rates also have a higher cost coverage than Periodicals.<sup>2</sup> I have estimated the rates that each publication weighing less than one pound would pay both under regular and nonprofit Standard rates. That is not to imply that these publications would qualify for nonprofit rates, though presumably Time for Kids would. I show the nonprofit alternative because comparison with a subclass whose cost coverage is closer to that of Periodicals might be just as informative.

Mail pieces using BPM rates are either flats or parcels. Since R2001-1 BPM rates include a discount for flat shaped pieces.<sup>3</sup> I have assumed that In Style and Modern Bride both would qualify for the BPM flats rates, that their barcoded pieces would qualify for the BPM 3-cent automation discount and that their carrier route presorted pieces would qualify for the BPM carrier route rate.

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<sup>1</sup> See Docket No. R2001-1, Opinion And Recommended Decision Approving Stipulation And Agreement, Appendix G.

<sup>2</sup> Nonprofit and regular rates were combined within both Standard subclasses in R2001-1 and cost coverage no longer computed separately. However, in the Commission's R2000-1 Opinion, nonprofit ECR is shown as having a cost coverage of 136.1%.

<sup>3</sup> The BPM flats/parcel rate differential only reflects the lower costs incurred by flats in the delivery function. It does not include the lower costs of flats in mail processing.

The table below shows, for each publication, estimated postage per piece under current and proposed Periodicals rates as well as hypothetical postage under alternative Standard/BPM rates, based on the assumptions described above.

<b>Table ABM-T2-34: Estimated Per Piece Rates Under Different Rate Structures</b>					
	Current Rates	Proposed Rates	Standard Reg	Standard NP	BPM
Time	17.67	15.30	23.35	13.76	
Time For Kids	29.51	37.78	56.67	39.40	
In Style	61.50	53.37			75.98
Modern Bride	65.44	60.69			82.02
Golf World	22.80	22.40	25.35	15.75	
Reader's Digest	20.00	17.00	28.26	17.22	
Newsweek	17.44	14.51	23.30	13.82	
TV Guide	16.54	12.39	26.25	15.22	

## RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

ABM/TW et al.-T2-36. Please respond to the following questions related to your response to ABM/TW-T1-3, redirected from witness Mitchell:

- (a) Please explain why Time for Kids has only 1.04 pieces per bundle and state how, if at all, it would change its mailing practices if the rates proposed by witness Mitchell were adopted.
- (b) Please explain why only 4.07% of BMX is palletized, provide its mailed per-copy circulation, and state where it is printed, and how, if at all, it would change its mailing practices if the rates proposed by witness Mitchell were adopted.
- (c) Please explain why, if DNR, Footware and the other publications listed in the first column of page 12 of the data are co-mailed, only 65.6% of the copies are palletized.
- (d) Why are only 36.99% of the copies of Executive Technology (page 12) palletized, and where is it printed?
- (e) Please explain why 23% of the pieces of American Woodworker (page 14) are palletized and 11% are co-palletized, while most copies appear to be sacked? Where is it printed?
- (f) Please state which of the publications listed in the data are weekly publications with circulations of less than 100,000.

ABM/TW et al.-T2-36.

a. Please note that the number of pieces per bundle for Time for Kids is exactly 1.00, not 1.04. A supplementary response to ABM/TW-T1-3, correcting this mistake, was filed on June 10, 2004.

Time for Kids is a classroom publication. It is mailed in "firm bundles," each of which contains the copies for each student and the teacher in one classroom. A firm bundle is not opened by the Postal Service. It is handled, delivered and priced as a single piece. Since each bundle in fact is also a piece (though it contains many copies - a typical copy may be 8 pages) there is exactly one piece per bundle.

I don't know how Time for Kids would change if the proposed rates were adopted. However, I can offer the following comments. The firm bundles in which Time for Kids is mailed are treated exactly the same way as carrier route bundles in the Postal Service's mail processing system. That is they are sorted in bundle sorting operations, normally performed either manually or on SPBS machines, until they reach the carrier who will deliver them. But since bundle sorting is slower than flat sorting, a firm bundle

may incur higher sorting costs than individual flats. While current rates treat a firm bundle as if it were an individual flats piece, the proposed rates recognize that it is a bundle and is handled like a bundle. For this reason, Time for Kids would experience a substantial rate increase under the proposed rates.

I believe, however, that there may be a way to bring about a significant reduction in the costs of processing the type of firm bundles that Time for Kids uses, although such a change may require the cooperation of Postal Service regulators. Because each such firm bundle is a piece that stays intact until it has been delivered and because it is flat shaped and falls in the same weight range as Periodicals flats, it should be able to be prepared for machinability on AFSM-100 machines, pre-barcoded and sorted together with other flats on AFSM-100 machines rather than bundle sorters. Furthermore, unlike current practice, it should be able to be packaged into presorted packages together with other firm bundles going to the same Zip code. In this way, it might be possible for Time for Kids to be processed much more efficiently through the postal system than is the case today.

b. The mailed per-issue circulation of BMX is 18,495 pieces. I presume the reasons it does not palletize more than 4.07% are that (1) its volume is too small to achieve more palletization on its own; and (2) it does not at this time participate in a comail or co-palletization program.

I don't know what changes would be made by BMX, but obviously comailing and/or co-palletization programs and dropshipping would look more attractive if the proposed rates were adopted.

c. DNR, Footware News, Supermarket News and Home Furnishing News have a combined volume of 73,262 pieces per issue. See my answer to ABM/TW et al.-T2-1. I presume that if they were not comailed but mailed individually, they would be able to palletize substantially less than 65.6% of their volume.

d. The mailed per-issue circulation of Executive Technology is 30,273 pieces. I presume the reasons it does not palletize more than 36.99% are that (1) its volume is too small to achieve more palletization on its own; and (2) it does not at this time

participate in a comail or co-palletization program. Executive Technology is printed at Fry Communications in Mechanicsburg, PA.

e. Only certain portions of a given issue are selected for co-palletization. The quantities can vary significantly from issue to issue. American Woodworker is printed in Clarksville, TN.

f. DNR, Footware News, Supermarket News and Home Furnishing News are weekly publications with less than 100,000 circulation. The others are either not weekly, or have circulation over 100,000 or both. Note, however, that Women's Wear Daily is a daily publication with circulation under 100,000.



**RESPONSE OF WITNESS STRALBERG (TW ET AL.-T-2) TO ABM/TW ET AL.-T1-3,  
REDIRECTED FROM WITNESS MITCHELL**

ABM/TW et al.-T1-3. For each Periodical published by each of the five complainants and by every parent, subsidiary or affiliate of each complainant, please provide the following information for calendar year 2003 (or any other 12- month period since the present postal rates took effect), if the data are available for a 12-month period, or for a single, actual, representative issue of each Periodical if annual data are not available: (a) title, (b) frequency, (c) average weight, (d) percentage mailed to zone 3 or higher (e) average editorial percentage, (f) percentage palletized (including co-palletization), (g) percentage co-palletized or co-mailed, (h) average weight per pallet, (i) average pieces per sack, (j) average pieces per bundle (k) average per copy postage and (l) average per copy postage at the "Proposed Rate Schedule" found at page 43 of Mr. Mitchell's testimony.

**RESPONSE:**

Explanatory Note

Some of the information sought in this interrogatory is not currently generated by the software used to prepare mailings, nor is it currently required to be provided on mailing statements (form 3541). Although it is possible to extract the requested information from mail.dat files routinely generated for each mailing, to provide all the information requested for all publications mailed by complainants under outside county rates for an entire year would require an unreasonably large effort, probably consuming between six and twelve months of analyst time. A good-faith effort has been made to provide the information for a single recent issue of each publication, based on mail.dat files provided to me by each complainant.

Providing the requested information presents a particular problem in the case of co-mailed publications, because co-mailing entails shared use of bundles, sacks and pallets by different publications. To determine the postage each publication would be responsible for under the proposed rates would require determining what portion of each bundle, sack and pallet is used by that publication. The software for these types

of calculations does not yet appear to exist, although it would quickly be developed if the proposed rates were approved and implemented. Additionally, in cases of co-mailings that are shared with publications not owned by the complainants, the complainants do not possess information at the requisite level of detail. For some co-mailings made up only of publications owned by the complainants, I have been able to provide the requested information for the co-mailed group as a whole but not for the individual titles.

Most of the complainants' monthly publications produce a main mailing and several smaller supplemental mailings, each of which is defined by a separate mail.dat file. The information presented below includes analyses based on the "main file" mail.dat of the various publications, as well as analyses of selected supplemental mailings, where available, for the publications that make most extensive use of such mailings. Supplemental files are not an issue for any of the weekly or daily publications.

It should be noted that were the proposed rates were to go into effect, mailing practices for many of the complainants' publications would also change. For example, there would likely be fewer small supplemental mailings, reduced use of sacks and more dropshipping. However, the following estimates of postage under the proposed rates are based on current mailing practices and do not reflect expected changes in behavior.

Following is a summary description of the information obtained from each complainant, after which answers responsive to each subpart of the interrogatory are presented in a series of tables, organized by complainant.

### Summary Description Of Information Obtained From Each Complainant

#### Time Warner Periodicals

Table TW-1 contains answers responsive to each interrogatory subpart for each of Time Inc.'s weekly publications, including Time for Kids. Table TW-2 contains corresponding answers for Time Warner's six Transworld publications. Tables TW-3, TW-4 and TW-5 contain corresponding answers for 25 Time Inc. monthly (or biweekly in the case of Fortune) publications. Because Parenting, Health and Baby Talk are co-mailed with many other magazines not owned by Time Inc., Table TW-5 provides only partial responses for those titles.

The information in Tables TW-1 through TW-5 was obtained from analysis of mail.dat files for the main mailing of a given issue of each Periodical. Most of the monthly publications also use one or several supplemental mailings with lower levels of presort, less dropshipping and a proportionally higher use of sacks than the main mailings. Table TW-6 contains responses for combinations of supplemental mailings for some of the titles that make extensive use of such mailings. As indicated in the table, the number of supplemental mailings for a given publication varied from three to eight. Their combined volume varied from around 25% of the total for a given publication to under 1%.

#### Condé Nast Periodicals

Table CN-1 presents answers responsive to each interrogatory subpart for a total of 16 publications, including nine publications that are prepared and mailed individually and two groups of co-mailed magazines (the first consisting of Allure, Gourmet, GQ, Self and Vogue, and the second of House and Garden and Golf Digest), for which the estimated postage under proposed rates can be provided for the co-mailed group as a whole but not for the individual titles.

Table CN-2 contains similar information for ten titles from Fairchild Publications, owned by Condé Nast's parent company, including a group of four weekly publications that are

co-mailed together (DNR, Footware News, Supermarket News and Home Furnishing News), for which, again, estimates are provided only for the co-mailing as a whole. The total co-mailed volume in this case is 73,262 pieces. The six other titles include five monthly and one daily publication.

Table CN-3 contains analyses of samples of supplemental mailings for which Condé Nast provided me with mail.dat files. It is my understanding that a typical issue of these monthly magazines in fact may have several supplemental mailings.

#### Reader's Digest Periodicals

Table RD-1 presents the result of an analysis of various main file mail.dat selections modified by Reader's Digest personnel to account for the various and numerous supplemental files. It includes answers to the interrogatory subparts for the Reader's Digest, Selecciones, and 10 titles from Reiman Publications. It also includes three publications that are co-mailed with other publications, (Family Handyman, American Woodworker and RD Large Type) and for which it was impossible to estimate the postage under the proposed rates. There are two Reiman titles for which mail.dat files were not available.

#### Newsweek Periodicals

Table NW-1 contains the result of analyzing mail.dat files for Newsweek and Budget Travel.

#### TV Guide

Table TV-1 contains the result of analyzing mail.dat files for TV Guide.

<b>Table TW-1: Summary Data For Time Inc. Weekly Magazines</b>					
Title	Time	Sports Illustrated	People	Entertainment Weekly	Time for Kids
Frequency	51	51	51	49	26
Lb/Piece	0.32	0.39	0.36	0.27	0.85
Zones 3-8	4.14%	1.53%	8.69%	4.81%	9.92%
Editorial Content	51.98%	56.10%	53.19%	60.74%	99.36%
Co-palletized or co-mailed	No	No	No	No	No
Palletized	98.15%	99.14%	97.02%	98.73%	91.07%
Lb/Pallet (Excluding tare weight)	713.02	833.13	860.11	775.71	442.96
Pieces/sack	12.01	25.82	14.67	26.29	10.14
Pieces/bundle	15.99	14.36	13.07	11.18	1.04
Postage(cents)/Piece (current rates)	17.67	18.73	19.12	17.20	29.51
Postage(cents)/Piece (proposed rates)	15.30	15.40	16.76	15.11	37.49

Table TW-2: Summary Data For Transworld Publications						
Title	BMX	Motocross	Ride BMX	Skateboarding	Snowboarding	Surf
Frequency	12	12	9	12	8	12
Lb/Piece	0.49	0.76	0.57	1.15	1.03	0.65
Zones 3-8	91.59%	94.39%	90.73%	97.18%	95.72%	99.50%
Editorial Content	52.00%	69.00%	46.00%	45.00%	50.00%	50.00%
Co-palletized or co-mailed	No	No	No	No	No	No
Palletized	4.07%	70.83%	14.59%	87.55%	81.03%	61.47%
Lb/Pallet (Excluding tare weight)	340.90	364.85	307.69	659.22	640.95	406.77
Pieces/sack	39.30	31.41	34.87	17.42	20.40	32.59
Pieces/bundle	14.29	12.41	10.15	9.28	9.50	10.90
Postage(cents)/Piece (current rates)	38.54	41.26	42.05	58.38	53.06	44.07
Postage(cents)/Piece (proposed rates)	40.54	46.40	* 44.65	60.70	56.59	48.06

<b>Table TW-3: Summary Data For Time Inc. Monthly Publications</b>										
Title	Coastal Living	Cooking Light	Field & Stream	Fortune	Golf	In Style	Money	Outdoor Life	People en Español	Popular Science
Frequency	8	11	11	26	12	13	13	9	11	12
Lb/Piece	1.14	0.76	0.50	0.60	0.98	2.13	0.53	0.43	0.52	0.57
Zones 3-8	12.42%	6.13%	4.07%	9.05%	2.88%	8.41%	5.41%	11.96%	10.89%	6.69%
Editorial Content	45.32%	49.34%	44.81%	37.20%	49.10%	40.57%	55.78%	53.74%	53.13%	48.19%
Co-palletized or co-mailed	No	No	No	No	No	No	No	No	No	No
Palletized	91.05%	96.20%	98.22%	93.40%	98.56%	97.40%	96.14%	90.00%	94.04%	94.78%
Lb/Pallet (Excluding tare weight)	554	1,023	1,012	871	1,002	1,079	975	490	585	666
Pieces/sack	17.88	17.73	28.76	12.94	28.74	16.42	16.04	29.73	29.65	33.85
Pieces/bundle	10.16	8.75	12.45	10.88	10.54	6.37	10.74	14.31	12.01	9.41
Postage(cents)/Piece (current rates)	41.61	30.01	25.73	28.59	33.77	61.50	22.96	26.15	25.52	25.85
Postage(cents)/Piece (proposed rates)	37.58	26.12	22.62	26.80	27.55	53.37	19.81	24.37	23.17	23.24

<b>Table TW-4: Summary Data For Time Inc. Monthly Publications</b>										
Title	Progressive Farmer	Real Simple	Ski	Skiing	SI for Kids	Teen People	This Old House	Sunset	Business 2.0	Yachting
Frequency	14	10	8	7	12	10	10	12	11	12
Lb/Piece	0.33	1.19	0.37	0.32	0.33	0.61	0.73	0.73	0.55	1.06
Zones 3-8	5.50%	6.97%	16.44%	17.15%	22.73%	5.06%	5.28%	3.95%	1.86%	22.28%
Editorial Content	45.39%	48.03%	58.17%	63.01%	82.79%	51.05%	41.27%	42.83%	53.44%	28.00%
Co-palletized or co-mailed	No	No	No	No	No	No	No	No	No	No
Palletized	95.80%	96.60%	82.96%	83.51%	94.91%	96.04%	97.75%	97.22%	96.33%	80.85%
Lb/Pallet (Excluding tare weight)	778	715	673	695	786	855	1,198	1,054	680	534
Pieces/sack	22.44	17.15	30.41	44.55	20.69	38.42	29.23	36.07	26.07	20.04
Pieces/bundle	13.46	8.26	15.77	15.25	11.68	11.07	10.46	13.34	13.25	7.88
Postage(cents)/Piece (current rates)	20.44	39.01	24.99	22.50	18.73	26.58	30.71	28.21	26.26	45.75
Postage(cents)/Piece (proposed rates)	18.41	33.35	23.42	20.71	17.28	23.01	26.60	23.40	22.79	44.45



Table TW-5: Summary Data For Time Inc. Monthly Publications					
Title	Saltwater Sportsman	Motor Boating	Parenting	Baby Talk	Health
Frequency	12	12	11	10	10
Lb/Piece	0.62	0.57	0.86	0.48	0.71
Zones 3-8	17.15%	25.20%	3.62%	3.67%	3.11%
Editorial Content	33.82%	40.20%	48.21%	42.24%	49.65%
Co-palletized or co-mailed	No	No	co-mail	co-mail	co-mail
Palletized	83.23%	73.94%	98.05%	98.17%	98.19%
Lb/Pallet (Excluding tare weight)	495	415	NA	NA	NA
Pieces/sack	33.52	35.14	NA	NA	NA
Pieces/bundle	8.58	12.85	NA	NA	NA
Postage(cents)/Piece (current rates)	33.13	33.06	30.40	22.52	27.64
Postage(cents)/Piece (proposed rates)	32.06	31.88	NA	NA	NA

<b>Table TW-6: Summary Data For Supplemental Mailings Of Time Inc. Monthly Publications</b>									
Title	Cooking Light	Southern Accents	Coastal Living	In Style	Money	Real Simple	SI for Kids	Southern Living	Teen People
Number Of Supplemental Mailings (One Issue)	3	7	8	4	3	3	3	3	3
Frequency	11	6	8	13	12	10	12	13	10
Lb/Piece	1.02	1.05	0.94	2.14	0.47	1.36	0.25	0.90	0.57
Zones 3-8	98.14%	94.85%	98.75%	93.59%	98.35%	98.15%	95.63%	93.31%	93.43%
Editorial Content	46.27%	48.37%	44.28%	42.28%	50.04%	49.57%	71.90%	45.76%	52.26%
Co-palletized or co-mailed	No	No	No	No	No	No	No	No	No
Palletized	85.99%	13.12%	41.19%	61.15%	0.00%	1.93%	0.00%	60.48%	0.00%
Lb/Pallet (Excluding tare weight)	613.38	313.35	386.07	701.81	0.00	0.00	0.00	560.23	0.00
Pieces/sack	21.57	12.19	26.24	11.65	14.32	14.31	14.03	24.66	39.95
Pieces/bundle	7.44	10.83	12.16	4.48	8.85	4.37	10.59	11.80	8.05
Postage(cents)/Piece (current rates)	50.77	53.19	53.33	90.35	38.19	74.79	33.86	47.69	48.56
Postage(cents)/Piece (proposed rates)	52.87	67.62	57.53	101.78	54.61	85.77	49.81	47.73	46.56

Table CN-1: Summary Data For Condé Nast Publications											
Title	Allure, Gourmet, GQ, Self, Vogue	Bon Appetit	The New Yorker	Glamour	Vanity Fair	Modern Bride	Brides	Traveler	Teen Vogue	House & Garden, Golf Digest	Golf World
Frequency	12	12	52	12	12	12	12	12	12	12	46
Lb/Piece	1.22	1.15	0.43	1.23	1.84	2.06	1.65	1.00	0.58	0.86	0.24
Zones 3-8	1.56%	9.18%	25.15%	4.36%	4.74%	14.76%	8.02%	6.27%	5.09%	3.78%	42.81 %
Editorial Content	47.35%	46.71%	62.28%	48.00%	44.50%	28.00%	24.00%	46.50%	50.00%	50.10%	63.85 %
Co-palletized or co-mailed	Co-mail	No	No	No	No	No	No	No	No	Co-mail	No
Palletized	99.97%	99.06%	97.13%	99.73%	98.95%	98.40%	97.63%	98.76%	98.46%	99.50%	68.15 %
Lb/Pallet (Excluding tare weight)	1,110	1,180	916	1,438	1,974	1,079	897	1,288	900	1,311	386
Pieces/sack	18.96	17.47	16.99	17.77	20.85	19.29	18.87	21.78	31.23	16.40	47.42
Pieces/bundle	10.22	9.67	15.15	9.28	10.30	6.73	8.05	10.93	14.97	11.37	17.81
Postage(cents)/ Piece (current rates)	35.96	36.86	21.82	38.34	51.51	65.44	55.02	34.90	29.17	30.96	22.80
Postage(cents)/ Piece (proposed rates)	27.55	29.92	18.69	30.36	40.63	60.69	49.07	28.70	25.56	25.02	22.40

Table CN-2: Summary Data For Fairchild Publications							
Title	DNR, Footware News, Supermarket News, Home Furnishing News	Details	Children's Business	Executive Technology	In Furniture	W Magazine	Women's Wear Daily
Frequency	52	10	12	12	16	12	260
Lb/Piece	0.41	0.85	0.41	0.64	0.41	1.16	0.15
Zones 3-8	20.01%	8.84%	77.84%	83.76%	87.11%	1.91%	21.08%
Editorial Content	57.50%	50.00%	54.00%	56.80%	55.00%	56.69%	67.00%
Co-palletized or co-mailed	Co-mail	No	No	No	No	No	No
Palletized	65.62%	97.58%	5.26%	36.96%	0.00%	98.49%	0.00%
Lb/Pallet (Excluding tare weight)	343.48	961.36	259.71	378.81	0.00	1202.13	0.00
Pieces/sack	44.18	29.94	42.60	41.76	39.21	20.59	34.37
Pieces/bundle	10.78	13.88	11.59	9.56	11.29	11.22	11.56
Postage(cents)/ Piece (current rates)	27.70	34.47	34.78	38.97	34.65	38.44	24.67
Postage(cents)/ Piece (proposed rates)	27.51	29.31	37.16	41.34	37.67	30.23	25.80

<b>Table CN-3: Sample Supplemental Mailings Of Condé Nast Publications</b>							
Title	Bon Appetit	Brides	Glamour	House & Garden	Teen Vogue	Vanity Fair	Golf Digest
Frequency	12	12	12	12	12	12	12
Lb/Piece	0.80	1.64	1.21	0.70	0.57	1.16	1.41
Zones 3-8	97.05%	98.27%	92.90%	97.77%	97.69%	97.44%	81.53%
Editorial Content	47.00%	24.00%	48.00%	50.10%	50.00%	44.50%	44.64%
Co-palletized or co-mailed	No	No	No	No	No	No	No
Palletized	64.22%	12.89%	84.15%	68.96%	10.41%	59.59%	32.43%
Lb/Pallet (Excluding tare weight)	401.41	311.68	471.55	415.29	413.45	434.85	409.72
Pieces/sack	33.81	18.52	26.54	36.00	29.62	24.91	25.07
Pieces/bundle	11.52	7.97	9.76	12.11	12.49	10.20	6.83
Postage(cents)/Piece (current rates)	46.72	84.40	57.77	42.28	41.30	59.77	61.52
Postage(cents)/Piece (proposed rates)	49.72	91.67	60.61	44.43	45.51	64.04	64.14

Table RD-1:

**Reader's Digest Association, Inc.**  
Pleasantville, NY 10570

Title	Reader's Digest	Family Handyman	American Woodworker	RD Large Type	Selecciones	Taste of Home	Birds & Blooms	Quick Cooking	Country	Country Woman	Light & Tasty	Reminiscence	Reminiscence Extra	Crafting Traditions	Country Discoveries	Farm & Ranch Living	Country Extra
Frequency	12	10	7	12	12	6	6	6	6	6	6	6	6	6	6	6	6
Lbs. / Piece	.3732	.4257	.4146	.6453	.2652	.4502	.4260	.4391	.4004	.4174	.4256	.4040	.3810	.3938	.3909	.3858	.3859
% Mailed to zone 3 or higher	16%	72%	87%	62%	87%	13%	22%	18%	26%	17%	26%	44%	62%	95%	91%	45%	39%
Avg. Edit %	64%	54%	54%	91%	74%	81%	84%	81%	90%	86%	83%	89%	93%	93%	90%	92%	93%
% Palletized	92%	65%	23%	83%	80%	97%	85%	81%	90%	86%	88%	84%	89%	84%	94%	81%	90%
% Co-palletized	1%	15%	11%	25%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Avg. Lbs. / Pallet	1,070	743	445	905	725	864	940	837	701	696	748	397	447	672	509	510	646
Avg. Pieces/Sack	50	53	52	42	36	120	130	130	140	126	129	141	151	130	146	151	156
Avg. Pieces/Bundle	9	21	20	10	10	27	29	28	32	30	30	33	34	43	33	35	36
Postal \$/Copy – current	\$0.20	\$0.30	\$0.34	\$0.26	\$0.22	\$0.30	\$0.26	\$0.26	\$0.25	\$0.27	\$0.28	\$0.26	\$0.26	\$0.28	\$0.27	\$0.26	\$0.25
Postal \$/Copy - proposed	\$0.17	N/A	N/A	N/A	\$0.21	\$0.26	\$0.21	\$0.23	\$0.23	\$0.25	\$0.25	\$0.24	\$0.25	\$0.27	\$0.25	N/C	N/C
Time Frame	C'03	F'03	F'03	F'03	C'03	F'03	F'03	F'03	F'03	F'03	F'03	F'03	F'03	F'03	F'03	F'03	F'03

N/C – Not Calculated

N/A – Non-applicable due to co-mailing of titles

<b>Table NW-1: Summary Data for Newsweek</b>		
Title	Newsweek	Budget Travel
Frequency	51	10
Lb/Piece	0.31	0.58
Zones 3-8	5.14%	9.59%
Editorial Content	59.48%	45.11%
Co-palletized or co-mailed	No	No
Palletized	99.33%	90.22%
Lb/Pallet (Excluding tare weight)	865.60	848.14
Pieces/sack	28.66	39.60
Pieces/bundle	14.25	12.79
Postage(cents)/Piece (current rates)	17.44	29.48
Postage(cents)/Piece (proposed rates)	14.51	26.59

<b>Table TV-1: TV Guide Summary Data (All Plants)</b>	
Frequency	52
Lb/Piece	0.38
Zones 3-8	1.24%
Editorial Content	77.82%
Co-palletized or co-mailed	No
Palletized	98.79%
Lb/Pallet (Excluding tare weight)	851.97
Pieces/sack	18.21
Pieces/bundle	17.86
Postage(cents)/Piece (current rates)	16.54
Postage(cents)/Piece (proposed rates)	12.39

**Supplementary Response of Witness Stralberg to ABM/TW et al.-T1-3  
Redirected from Witness Mitchell**

**ABM/TW et al.-T1-3.** For each Periodical published by each of the five complainants and by every parent, subsidiary or affiliate of each complainant, please provide the following information for calendar year 2003 (or any other 12- month period since the present postal rates took effect), if the data are available for a 12-month period, or for a single, actual, representative issue of each Periodical if annual data are not available: (a) title, (b) frequency, (c) average weight, (d) percentage mailed to zone 3 or higher (e) average editorial percentage, (f) percentage palletized (including co-palletization), (g) percentage co-palletized or co-mailed, (h) average weight per pallet, (i) average pieces per sack, (j) average pieces per bundle (k) average per copy postage and (l) average per copy postage at the "Proposed Rate Schedule" found at page 43 of Mr. Mitchell's testimony.

**SUPPLEMENTARY RESPONSE**

I have become aware of an inadvertent error and an omission in my response to ABM/TW et al.-T1-3, filed on May 26.

In Table TW-1, presenting data on Time Inc. weekly publications, the information for Time for Kids should be corrected as follows:

- (1) the number of pieces per bundle should be changed from 1.04 to 1.00
- (2) the estimated per-piece postage under the proposed rates should be changed from 37.49 cents to 37.78 cents.

Additionally, the information requested for Southern Accents and Southern Living, two Time inc. monthly publications, was left out. It should be included in Table TW-5.

Corrected versions of Tables TW-1 and TW-5 follow.



**Supplementary Response of Witness Stralberg to ABM/TW et al.-T1-3  
Redirected from Witness Mitchell**

<b>Table TW-1: Summary Data For Time Inc. Weekly Magazines</b>					
Title	Time	Sports Illustrated	People	Entertainment Weekly	Time for Kids
Frequency	51	51	51	49	26
Lb/Piece	0.32	0.39	0.36	0.27	0.85
Zones 3-8	4.14%	1.53%	8.69%	4.81%	9.92%
Editorial Content	51.98%	56.10%	53.19%	60.74%	99.36%
Co-palletized or co-mailed	No	No	No	No	No
Palletized	98.15%	99.14%	97.02%	98.73%	91.07%
Lb/Pallet (Excluding tare weight)	713.02	833.13	860.11	775.71	442.96
Pieces/sack	12.01	25.82	14.67	26.29	10.14
Pieces/bundle	15.99	14.36	13.07	11.18	1.00
Postage(cents)/Piece (current rates)	17.67	18.73	19.12	17.20	29.51
Postage(cents)/Piece (proposed rates)	15.30	15.40	16.76	15.11	37.78

<b>Table TW-5: Summary For Time Inc. Monthly Publications</b>							
Title	Southern Living	Southern Accents	Saltwater Sportsman	Motorboating	Parenting	Babytalk	Health
Frequency	12	6	12	12	11	10	10
Lb/Piece	0.82	1.57	0.62	0.57	0.86	0.48	0.71
Zones 3-8	5.39%	10.82%	17.15%	25.20%	3.62%	3.67%	3.11%
Editorial Content	42.70%	49.44%	33.82%	40.20%	48.21%	42.24%	49.65%
Co palletized or co-mailed	No	No	No	No	comail	comail	comail
Palletized:	98.90%	92.89%	83.23%	73.94%	98.05%	98.17%	98.19%
Lb/Pallet (Excluding tare weight)	897	485	495	415	NA	NA	NA
Pieces/sack	17.37	11.32	33.52	35.14	NA	NA	NA
Pieces/bundle	13.89	7.81	8.58	12.85	NA	NA	NA
Postage(cents)/Piece (current rates)	29.56	49.92	33.13	33.06	30.40	22.52	27.64
Postage(cents)/Piece (proposed rates)	24.41	44.83	32.06	31.88	NA	NA	NA

**RESPONSE OF WITNESS STRALBERG TO ABM/TW Et Al.-T3-42,  
REDIRECTED FROM WITNESS GORDON**

ABM/TW et al.-T3-42. Please examine the list of publications produced by the complainants that is provided by witness Stralberg (redirected) in response to ABM/TW-T1-3. For each publication, list its total print run and the number of printing plants at which it is printed.

**RESPONSE:**

The following publications use more than one printing plant. The number of plants used is indicated in parentheses. To the best of my knowledge, all other complainants' publications use a single plant.

Time (5), Sports Illustrated (6), People (5), Entertainment Weekly (3), Newsweek (6), TV Guide (7).

The four tables below give the total print order for a typical issue, for those publications for which the information has been provided to me. Please note that the volumes given are for copies printed, whereas the volumes I provided in response to ABM/TW-T2-1 refer to mailed postal pieces. For example, in the case of Time for Kids, the mailed piece volume is 114,686. Each piece is a "firm bundle" containing the copies that go to one classroom. Total copies printed is 3,518,675.

<b>Time Inc. Weekly Publications</b>	
<b>Title</b>	<b>Print Order</b>
Time	4,479,537
Sports Illustrated	3,732,874
People	5,112,054
Entertainment Weekly	2,337,434
Time for Kids	3,518,675

<b>Transworld Publications</b>	
<b>Title</b>	<b>Print Order</b>
BMX	47,035
Motocross	153,206
Ride BMX	78,208
Skateboarding	285,642
Snowboarding	195,506
Surf	75,317

<b>Time Inc. Monthly Publications</b>	
<b>Title</b>	<b>Print Order</b>
Baby Talk	2,013,336
Big Picture	667,807
Business 2.0	685,702
Coastal Living	919,966
Cooking Light	2,101,134
Field & Stream	1,632,350
Fortune	1,071,390
Golf	1,637,812
Health	1,770,818
In Style	2,529,130
Money	2,316,009
Motor Boating	185,643
Outdoor Life	1,054,436
Parenting	2,434,642
People en Español	708,920
Popular Science	1,737,691
Progressive Farmer	623,206
Real Simple	2,346,822
Saltwater Sportsman	209,865
SI for Kids	1,071,437
Ski	524,420
Skiing	467,286
Southern accents	557,303
Southern Living	2,971,511
Sunset	1,663,641
Teen People	2,137,726
This Old House	1,196,820
Yachting	159,907

Other Publications	
Title	Print Order
Newsweek	3,627,500
Budget Travel	659,237
TV Guide	10,076,268
Reader's Digest	12,442,951
Family Handyman	1,326,408
American Woodworker	462,445
RD Large Type	701,955
Selecciones	434,885
Taste of Home	4,741,583
Birds & Blooms	2,168,500
Quick Cooking	3,177,500
Country	1,230,917
Country Woman	1,524,000
Light & Tasty	1,920,167
Reminisce	1,128,833
Reminisce Extra	344,417
Crafting Traditions	320,017
Country Discoveries	346,000
Farm & Ranch Living	421,250
Country Extra	333,033
DNR	19,000
Footware News	19,500
Supermarket News	39,000
Home Furnishing News	23,500
Details	581,000
Children's Business	15,000
Executive Technology	36,800
In Furniture	26,000
W Magazine	546,000
Women's Wear Daily	48,000
Allure	1,434,545
G.Q.	1,191,932
Gourmet	1,121,414
Self	1,998,619
Vogue	1,736,172
Bon Appetit	1,574,057
The New Yorker	1,077,390
Glamour	3,604,188
Vanity Fair	1,596,233
Modern Bride	818,315
Brides	717,324
Traveler	848,499
Teen Vogue	1,270,788
House & Garden	1,099,650

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
MCGRAW-HILL COMPANIES**

MH/TW et al.-T2-1. To the best of your ability, using R2001-1 test year (FY 2003) after rates volumes, please quantify the total number of sacks that contain only a single piece.

MH/TW et al.-T2-1. I do not know of any data that would permit such a quantification.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
MCGRAW-HILL COMPANIES**

MH/TW et al.-T2-2. With reference to your testimony at page 6, note 4, please state your understanding of why (a) a large-circulation mailer like Time Inc. and (b) a relatively small-circulation publication would mail sacks that each contained only one or just a few pieces, for service reasons or otherwise.

MH/TW et al.-T2-2. While there may be reasons I am not aware of, I believe the following may apply to both large and small mailers:

- (1) there appears to be a widespread perception that putting mail in sacks with a high level of presort will lead to faster delivery;
- (2) there are at present no rate consequences for using sacks in this manner; and
- (3) mailers use fulfillment programs with a large number of optional parameters and may not have fully evaluated the impact of changing the values of these parameters.

Publications with large circulation tend to be produced in numerous versions, often with many versions going to the same carrier route. Depending on how the mailer's production is organized (e.g., whether he makes use of selective binding), he may or may not be able to produce all the versions for a given carrier route or ZIP code together, and so even a very large mailer could end up at some point in his production schedule with just a few copies going to one 5-digit or even 3-digit zone.

As to whether or not the perception that pieces put in a 5-digit sack and entered from a distant location will be delivered more reliably and faster than if they were in a 3-digit sack really is true, please see my answers to ABM/TW et al.-T2-6 and MH/TW et al.-T2-3, and witness Schick's answer to ABM/TW et al.-T4-6.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-3. For a periodical that mails sacks that each contain only one or just a few pieces in order to achieve reasonable service levels, what are the actual and possible practical alternatives to such practice, in your view, that would enable the periodical to achieve reasonable service levels?

MH/TW et al.-T2-3. The question appears to assume that mailing sacks with just a few pieces in them really does achieve "reasonable service levels." While it is unclear to me what you mean by "reasonable," I tend to believe that this assumption may not hold true, at least not on a consistent basis.

To illustrate why I question the validity of this assumption, consider two weekly publications that each mail a bundle of six copies to the same 5-digit zip code. One puts the bundle in a separate 5-digit sack. The other puts the bundle in a 3-digit sack that also contains bundles for some other 5-digit zones. Both sacks are mailed, from zone 8, at the same time. It is my understanding that these sacks, barring any abnormal events, will travel together through the postal network until they get to the destinating SCF. They will probably both arrive at the SCF in a rolling container (hamper/APC) that remains on the platform until someone comes to sort the sacks. At that point the 3-digit sack will be identified as a "working" sack and taken inside the building to a bundle sorting operation, where bundles are dumped on a conveyor belt and sorted into 5-digit containers, which then are taken to the platform for dispatch to the DDU. The 5-digit sack will be placed in another 5-digit container and also taken to the platform area from which mail to the given DDU is dispatched.

If the given facility meets its service commitments and gives priority to weekly and daily publications, as facility managers say they do, then it is my understanding that the two bundles, one from a 5-digit and one from a 3-digit sack, should arrive at the DDU at the same time and have an equal probability of being delivered the following morning. There should under no circumstances be more than a one day difference in delivery time. Yet I happen to know, as recipient of several small weekly publications mailed from out of state, that delivery is less reliable than that; in fact, sometimes an issue for a

given week arrives later than the issue for the following week. Such large discrepancies cannot possibly be explained in terms of whether 5-digit or 3-digit sacks were used. Even placing the mail in ADC sacks should never cause delays of more than one day.<sup>1</sup>

My conclusion is that when publications are mailed from a high zone one cannot assume reliable and fast service no matter what sacks are used. The best way, perhaps the only way, to guarantee "reasonable service" is, in my opinion, to bypass as many postal operations and transportation steps as possible and enter the mail as close as possible to its final destination. Some weekly publications have recognized this and are therefore airlifting their mail to locations around the country.

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<sup>1</sup> In the scenario described above I have assumed that both 5-digit bundles would be subject to manual incoming secondary piece sorting at the DDU. If the SCF processes flats incoming secondary for the given ZIP code on an AFSM-100, it may bring both bundles first to a prepping operation and then sort the pieces on a machine. It is possible, however, that the bundle in the 5-digit sack would go directly to the DDU where the pieces would be sorted manually, presumably at a higher cost than if done on the machine at the SCF. Under that scenario, the cost consequences of using the 5-digit sack may be even higher than indicated in my testimony. I believe if all service commitments are adhered to the conclusions presented above will not change.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-4. With reference to your testimony at pages 5-7, please compare the Postal Service's investments over time in facilities, equipment and/or processes designed to facilitate the handling of (a) pallets and (b) sacks, respectively.

MH/TW et al.-T2-4. I do not have the information needed to quantify Postal Service investments over time in pallet and sack handling. In general, however, I think one can say that many older postal facilities, including the BMC's, tended to be equipped with extensive conveyor belts, slides and chutes for moving sacks and parcels but were not laid out in a way that facilitated movement and cross-docking of pallets and rolling stock. Many older facilities were multistory buildings in downtown locations where pallets, hampers and other rolling containers could only be moved to the workroom floor through elevators, which tended to form bottlenecks.

For example, in Docket No. R87-1, when I first testified in support of a pallet discount, the Commission stated that "no witness on the record . . . finds that palletization does not save postal resources" but, on the basis of Postal Service witness Dowling's rebuttal testimony that many USPS facilities were not at that time properly equipped to accept pallets, declined to recommend a discount. See PRC Op. R87-1, March 4, 1988, ¶¶ 5420-21 (pp. 556-57) ("if Postal Service facilities cannot handle pallet volume, then the time may not be ripe for any pallet discount").

In more recent years the Postal Service has been gradually upgrading its facilities to enable the movement of pallets and rolling stock on and off trucks, across platforms and to and from the workroom floor. Newer facilities tend, for example, to place more of the processing on a single floor, reducing or eliminating the dependence on elevators. I don't think one can characterize these improvements as being only to facilitate pallet handling, since they also facilitate the movement of hampers, APC's and other rolling stock as well as postal paks. They have also facilitated the movement of sacks, which nowadays are loaded on and off trucks in rolling stock, in operations that are much faster than when sacks were bedloaded in trucks. Please see also my response to ABM/TW et al.-T2-30.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-5. Please explain whether it is likely or conceivable in your view that under the proposed rate structure, mailers may have incentives to (a) switch from 5-digit sacks to fewer and heavier 3-digit sacks, and/or (b) switch from pallets to heavy sacks, and if so, (c) please explain the likely effect on mail processing costs.

MH/TW et al.-T2-5.

a. Yes, it is possible that some mailers would switch from 5-digit sacks to fewer and heavier 3-digit sacks. Note, however, that while such a move would reduce a mailer's sack charges, his bundle charges would be higher.

b. This too is possible, if the mailer has been in the habit of entering low-weight pallets far from their destination. I think, however, that this type of switch is less likely to occur than the one described in part a.

c. Per definition, cost based rates mean that when a mailer chooses an option that reduces his postage bill he will also reduce the Postal Service's costs.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-6. With reference to your testimony at page 7, lines 11-14 that “mailers themselves will be able to figure out how far to go in producing pallets with finer presort, by weighing the higher price of using more smaller pallets against the lower bundle prices that result from finer pallet presort levels,” and your testimony at page 8, lines 9-10 regarding “letting mailers figure out how many bundles to make by pricing both bundles and pieces in accordance with actual costs,” please discuss the extent to which under the proposed rate structure, mailers of varying size and sophistication will be confronted with more complex decision-making among a myriad of options and tradeoffs that cannot readily be resolved.

MH/TW et al.-T2-6. I presume that small mailers will rely on their printers or other agents to select the most favorable mail preparation and entry options and to modify their own operations in response to the challenges and opportunities presented by the new rate structure. Larger mailers might be more likely to rely on staff within their own organization.

I believe almost all mailers today rely on some kind of fulfillment software to determine precisely how the mail is going to be prepared. Without such software, preparing mail in a way that meets all the very complex postal regulations, even for relatively small mailings, might be a near impossible task. The developers of such software are the ones who will be challenged to make optimal use of the new and more cost based rate structure.<sup>1</sup>

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<sup>1</sup> I realize that there may be very small mailers who perform all their fulfillment and mail preparation functions manually. But already under current rates, such a mailer would need to determine, for example, whether he has six or more pieces to each given 5-digit zone, then after that whether there are as much as six left over pieces in a given 3-digit zone, then he needs to count the bundles he has to each zone in order to determine whether he is required to make up a sack to a given 3-digit, SCF, ADC, etc. I don't believe the proposed rates would make things more difficult than they already are for such a mailer.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-7. Having reference, by way of example, to your testimony at pages ii-iii, page 9 lines 6-20, and page 30 lines 18-25, please discuss the potential problems of basing de-averaged rates on costs that are ill-defined.

MH/TW et al.-T2-7. Perhaps you mean costs that are not known with perfect precision, rather than costs that are ill-defined. My testimony in the locations you refer to doesn't call any costs "ill-defined" but explains why some of the productivity rates and other data used may not be 100% accurate. It also points out inconsistencies in assumptions used in the past by different postal witnesses.

This is nothing new. Postal Service witnesses in rate and classification cases often do not bother to explain, unless explicitly asked, the origin of many of the data they use or the fact that some of the productivity rates used in their models may originate in industrial engineering estimates developed 30 years ago, or earlier. I thought it was better to be as explicit as possible about the inconsistencies in postal data that I had to rely on. These facts do present challenges to developers of future mail flow and cost analysis models. Of course, only the Postal Service has the ability to collect new and more accurate data on its own operations.

In explaining why some of my sack handling productivity rates may understate the true costs of sack handling (because the industrial engineering standards they are based on tend to be optimistic), while some of the pallet related productivity rates may overstate the true costs (e.g., cross-docking costs), I am simply pointing out that the resulting sack charges presented by witness Mitchell still may not reflect the full costs of sack handling, while the proposed pallet charges could be too high. Since the proposed rates nevertheless tend to be viewed more favorably by mailers who mostly use pallets than by those who mostly use sacks, one could perhaps argue that such shortcomings in the data used serve to mitigate, to some extent, the impact of switching to fully cost based rates.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-8. With reference to your testimony at page 39, line 28 through page 40, (a) please discuss generally the potential problems of maintaining cost-based de-averaged rates when “[p]rocessing methods and mailer practices are changing continually;” (b) please discuss the extent to which the unit costs of Postal Service transportation, and its unit costs of handling sacks, can be expected to increase assuming that mailers engage in increased dropshipping and reduce their use of sacks; and (c) please discuss how frequently in your view a rate structure similar to that proposed here would require updating in order to “be a suitable and accurate tool for the determination of unit costs and the development of truly cost based Periodicals rates.”

MH/TW et al.-T2-8.

a. The Postal Service’s processing methods and mailer practices have been changing continually since at least 1970. Such changes present an ongoing challenge to update the rates to reflect new realities, but the inevitability of change should not be used as an excuse to fail to update an already severely outdated rate structure. The fact that the Postal Service was planning to automate letter mail processing (I remember viewing an experimental OCR letter sorter and an automated carrier sequencer in Cincinnati in 1973) could have been used in the 1970s and 80’s as an excuse to postpone indefinitely the offering of presort discounts. Fortunately, presort discounts were introduced, leading to major new mail categories such as First Class presort and Standard ECR, and a whole new industry engaged in the use and preparation of such mail.

The fact is that many things are not likely to change. One thing that will not change is that each time the Postal Service touches a sack, a pallet or a bundle it incurs costs. The rate structure will be improved if that fact is recognized in the rates. Another thing that has become quite clear in recent years and is not likely to change is that private industry is capable of transporting mail at much lower costs than the Postal Service can do. This too should be fully recognized in the rate structure.

b. The question of whether attributed unit costs of a postal operation such as transportation or sack handling will increase when volume declines can be restated as a question of whether or not the attributed costs are the true marginal or volume variable

costs. If the costs attributed to Periodicals are equal to the marginal costs, then removing some Periodicals from the system will not change the unit costs for the volume that remains. It is true that a postal operation may have some fixed costs in addition to the marginal costs, and your question appears to express a concern that the fixed costs would be supported by fewer Periodicals. However, fixed costs are considered institutional costs, and Periodicals pay only a very small proportion of institutional costs. It is true that when volume declines dramatically the marginal costs might increase for the volume that remains. However, most postal operations used by Periodicals are shared with other mail classes so that even a dramatic drop in Periodicals volume should not cause a major change in overall volume or in marginal costs.

For operations whose costs are fully volume variable, there are no fixed costs and the departure of some volume should have no effect on the unit costs for the volume that remains.

Taking transportation as an example, the Postal Service purchases many different modes of transportation in order to move Periodicals between postal facilities. The table below shows, for FY2001, the major modes used by Periodicals, the costs attributed to Periodicals, the portion of total attributed costs that was attributed to Periodicals, and the volume variability for each transportation mode. As can be seen, the Periodicals class is a relatively small user of most transportation modes. For example, it uses 8.67% of the Inter-SCF highway, 8.53% of Intra-BMC highway and 14.27% of Inter-BMC highway transportation. Even if almost all Periodicals were to disappear from those types of transportation, there would be little impact on the remaining volume. Note also that each of these transportation modes has a high volume variability and, as pointed out above, the Periodicals class is little affected by the remaining fixed costs.<sup>1</sup>

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<sup>1</sup> Highway transportation is performed under contracts which take time to renegotiate, so it may take the Postal Service some time to realize the full savings from reduced volumes. Nevertheless, in recent rate cases the Postal Service and the Commission have agreed that these transportation modes have a high long run volume variability.

There are, however, three transportation modes of which the Periodicals class is the dominant user. One is AMTRAK. In FY2001 Periodicals used about \$57 million in AMTRAK costs. But these costs are 100% volume variable. The Postal Service pays AMTRAK per cubic foot used, and if it uses less it pays proportionately less. In other words, those costs will really disappear if mailers dropship more. AMTRAK may lose revenue, but the costs to the Periodicals that continue using it should not change.

The other transportation modes where Periodicals is the major user are highway and rail plant loads, whose costs are respectively 90% and 99% volume variable. Plant loads are arranged on a case by case basis when there is a large volume that can be taken directly from a plant to a downstream postal facility. But such volumes could then just as well be taken by a printer or consolidator, who in all likelihood would do it for less. Again, there is no need for concern that disappearance of Periodicals from these transportation modes would cause hardship to remaining non-dropshipped Periodicals.<sup>2</sup>

<b>Major Postal Transportation Modes Used By Periodicals</b>				
		Periodicals Cost (\$1,000's)	Periodicals % of Total	Volume Variability
Air		21,235	1.33%	87.21%
Highway	Intra-SCF	64,669	10.79%	63.29%
	Inter-SCF	47,537	8.67%	90.27%
	Intra-BMC	23,948	8.53%	98.42%
	Inter-BMC	41,900	14.27%	97.97%
	Plant Load	19,800	49.65%	89.80%
Rail	AMTRAK	56,851	78.40%	100.00%
	Freight Rail	10,459	18.21%	100.00%
	Plant Load	6,780	69.90%	99.03%

Regarding sack sorting and other sack handling operations, there may be some disagreement over how volume variable those costs are. I do not know the answer to that question. However, the Periodicals class is not a dominant user of the Postal

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<sup>2</sup> Prior to 1991, the Periodicals class was a small user of plant loading compared with third and fourth class (Standard and parcel services.) But with the introduction of stronger dropship incentives for those mail classes, starting with the R90-1 rate case, they have been using fewer and fewer plant loads arranged by the Postal Service, leaving Periodicals behind as the predominant user of plant loads.

Service's sack sorter machinery and does not support, to any significant degree, the fixed costs associated with sack handling.

c. I do not think it is possible to achieve a rate structure that is perfect at all times. Such a pursuit may be a fool's errand because, for one thing, the data on which rates are based will never be perfect. If a reasonably cost based rate structure of the kind proposed in this case were in place, it would not be necessary to modify it more often than rates normally are modified now. It would, however, be a mistake to continue to live with a structure as imperfect as the one that now exists just because a perfect structure is unattainable.



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MH/TW et al.-T2-9. With reference to your testimony at page 10 note 8 that “[t]hese categories were present also in the Postal Service’s R2000-1 and R2001-1 mail flow models” but that “in both cases the USPS witness combined the more detailed set of categories into the much more limited number representing current presort/automation rate levels”, please set forth your understanding of why the Postal Service adopted that approach rather than the approach advocated by you in this case.

MH/TW et al.-T2-9. I cannot speak for the Postal Service. I do not always understand why it takes the positions that it does. However, I believe many people in the Postal Service realize the need for the types of rate reform being proposed in this case.

It obviously was easier for the Postal Service, whose main objective after all was higher overall rates, to propose rates based on the same presort/automation categories that already had been established in the past. In R2001-1 the Postal Service did propose other changes in the Periodicals rate structure that it evidently believed more important, or perhaps just less controversial.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
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MH/TW et al.-T2-11. Referring to your testimony at page 32 lines 16-22, (a) please confirm that the estimated costs for a 5-digit pallet entered at the OAO reflect an average of costs for such pallets that are entered close to destination (e.g., in the DSCF or DADC service area) and costs for such pallets that are entered further from destination, or explain if you are unable to confirm, and (b) please confirm that under the proposed rate structure 5-digit pallets entered at an OAO close to destination would be subsidizing 5-digit pallets entered at an OAO further from destination, or explain if you are unable to confirm.

MH/TW et al.-T2-11.

a. Confirmed.

b. Yes, you could put it that way. The pallet entered nearby would pay lower pound charges, but the pallet charge would be the same as for the pallet entered in a far-away location, even though the latter probably would incur more pallet handling costs. The proposed rates are still not 100% disaggregated, which I think would be an unattainable goal, but they go a long way without introducing excessive complexity.

1 CHAIRMAN OMAS: Is there any additional  
2 written cross-examination for Witness Stralberg?

3 MR. RUBIN: Yes.

4 CHAIRMAN OMAS: Mr. Rubin?

5 MR. RUBIN: I'll provide two copies of the  
6 additional discovery that I wish to have designated to  
7 the witness and then question him as to whether they  
8 can be entered into the record.

9 CHAIRMAN OMAS: Okay.

10 MR. RUBIN: Mr. Stralberg, I have just had  
11 provided to you two copies of your responses to McGraw  
12 Hill Interrogatory T1-25, redirected from Witness  
13 Mitchell; McGraw Hill Interrogatories T2, 12, and 13;  
14 NNA Interrogatories T1, 37, 38, and 40, redirected  
15 from Witness Mitchell; NNA T2-3 and then 5 through 10;  
16 Postal Service Interrogatory T1-12, redirected from  
17 Witness Mitchell; and Postal Service Interrogatories  
18 T2 1 through 20 and 22 through 26.

19 Were these responses prepared by you or  
20 under your supervision?

21 THE WITNESS: Yes, they were.

22 MR. RUBIN: And if you were to answer these  
23 questions orally today, would your answers be the  
24 same?

25 THE WITNESS: Yes, they would.

1                   MR. RUBIN:  Then I move that these responses  
2   be entered into the record in this proceeding.

3                   CHAIRMAN OMAS:  Without objection.

4                               (The document, previously  
5                               identified as Exhibit No. TW  
6                               et al.-T-2, was received in  
7                               evidence.)

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**RESPONSE OF WITNESS STRALBERG (TW et al.-T-2) TO MH/TW et al.-T1-25,  
REDIRECTED FROM WITNESS MITCHELL**

MH/TW et al.-T1-25. With regard to the proposed rate structure presented at page 43 of your testimony:

(a) Please explain whether it is anomalous that, alone among the container level and bundle level combinations, a 5-D bundle in a 5-D/CR container would pay no bundle charge.

(b) Please explain whether it is anomalous that (i) the charge for an origin-entered 3-D/SCF sack is lower than both the charge for an origin-entered ADC sack and the charge for an origin-entered 5-D/CR sack, while (ii) the charge for a DBMC-entered 3-D/SCF sack is identical to the charge for a DBMC-entered ADC sack and lower than the charge for a DBMC-entered 5-D/CR sack, while (iii) the charge for a DADC-entered 3-D/SCF sack is higher than the charge for a DADC-entered ADC sack and lower than the charge for a DADC-entered 5-D/CR sack, and (iv) the relationships among the corresponding pallet charges are identical to the above-described relationships among sack charges except that the charge for a DADC-entered 3-D/SCF pallet is higher than both the charge for a DADC-entered ADC pallet and the charge for a DADC-entered 5-D/CR pallet.

MH/TW et al.-T1-25. The per-bundle, per-sack and per-pallet charges in Mr. Mitchell's rate design are based on the unit costs presented in my testimony. In Exhibit B of TW et al.-T2, Table B1 shows the sack and pallet unit costs, and Table B2a shows the bundle unit costs that Mr. Mitchell used. As explained below, I believe these unit costs, far from being anomalous, reflect the way in which bundles and containers are processed in the mail processing network. Please see also my response to MH/TW et al.-T2-12, addressing a similar concern.

a. A five digit sack will normally contain only 5-digit bundles, besides possibly some loose pieces. For that reason, the sack can be transported directly to the place where the pieces in the bundle will be sorted to carrier route, which might be at either the DDU or the DSCF. The sack itself will undergo various handlings, including the opening up of the sack and shaking out of its content. All those costs are in my analysis attributed to the sack, not to the bundles/pieces in the sack. When a 5-digit bundle emerges from this sack, it needs no bundle sort, because it already is at the 5-digit level where it can be opened for piece sorting. The cost of piece sorting and all further handling of the pieces is charged to the pieces, leaving no costs to be charged to the bundle itself.

It is different in the case of a carrier route bundle in a 5-digit sack. Such sacks are referred to as carrier routes or CRS sacks. The bundles in them do incur bundle sorting

costs, as shown in my Table B2a. A 3-digit bundle in a 3-digit sack also requires sorting, because the sack may also contain 5-digit bundles.<sup>1</sup>

b. Briefly stated, no. Your question weaves together four different concerns. Let me address them one at a time

(1) That “the charge for an origin-entered 3-D/SCF sack is lower than both the charge for an origin-entered ADC sack and the charge for an origin-entered 5-D/CR sack.”

Origin entry refers to everything that is not entered at either the DDU, DSCF, DADC or DBMC. It includes entry points that may be near the final destination as well as entry points thousands of miles away. If a 3-D/SCF and an ADC sack were entered at the same facility, and that facility were far away, then one might expect them to travel the same path and incur the same costs until they get to the DBMC, and from there they would also receive the same handling, for reasons explained in part (2) below. But as explained in my testimony at pages 31-32, the proportions of origin entered containers that in fact are close to the destinating facility vary considerably between container types and presort levels. Because more origin entered 3-D/SCF sacks in fact are entered in nearby facilities, their average costs are lower than for origin entered ADC sacks.

(2) That “the charge for a DBMC-entered 3-D/SCF sack is identical to the charge for a DBMC-entered ADC sack and lower than the charge for a DBMC-entered 5-D/CR sack.”

A BMC has transportation to all the SCF’s served by it, including SCF’s that serve as ADC’s. The BMC separates the sacks by SCF/ADC. Both the sack sorting performed

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<sup>1</sup> As can also be seen from Table B2a in my testimony, I do assign costs to 5-digit bundles on 5-digit pallets, because a 5-digit pallet may contain primarily carrier route bundles but also a few 5-digit bundles that have to be sorted and will be taken to an incoming secondary sorting scheme. However, many more 5-digit bundles are in 5-digit sacks than on 5-digit pallets, as shown in Table A2, Exhibit A in my testimony. Mr. Mitchell used the cost for 5-digit sacks. Finally, note that even for 5-digit bundles in 5-digit sacks there are some costs that I define as weight related, shown in Table B2b of my testimony. Mitchell did not include those costs in his design of bundle rates.

at the BMC and the subsequent transportation to the SCF/ADC consists of the same operations for ADC and 3D/SCF sacks. And whether it is a 3D/SCF or ADC sack, it is transported to the SCF/ADC where it will be opened. So the operations performed on the DBMC entered 3D/SCF and the ADC sacks are exactly the same, even the recycling and eventual return of the sacks for future use by mailers. On the other hand, a DBMC entered 5-D/CR sack will undergo more handling, because after it arrives at the SCF/ADC it may still need to be cross docked for transportation to the DDU and then unloaded at the DDU.

(3) That “the charge for a DADC-entered 3-D/SCF sack is higher than the charge for a DADC-entered ADC sack and lower than the charge for a DADC-entered 5-D/CR sack.”

An ADC sack entered at the DADC is already at the facility where it will be opened and its content distributed. A 3-D/SCF sack, on the other hand, requires cross-docking to the DSCF and later unloading at the DSCF. Its cost is therefore higher, although the bundles inside it may need less handling than the bundles in the ADC sack. A 5-D/CR sack entered at the DADC needs to get to the DSCF, and from there it needs to get to the DDU.

(4) That “the relationships among the corresponding pallet charges are identical to the above-described relationships among sack charges except that the charge for a DADC-entered 3-D/SCF pallet is higher than both the charge for a DADC-entered ADC pallet and the charge for a DADC-entered 5-D/CR pallet.”

The reason a DADC entered 3-D/DCF pallet costs more than a DADC entered ADC pallet is the same as explained for sacks in part 3 above. The reason the comparison with 5-D pallets has a different outcome than in the case of sacks is as follows. Note first of all that both in the case of pallets and in the case of sacks the 3-D and 5-D entered at the DADC have fairly similar costs. There are no CR pallets.

An ADC is a large SCF, typically larger than the nearby SCF's that it serves. It usually serves more and larger delivery units than the smaller surrounding SCF's. A 5-D pallet

entered at the DADC has a 65% probability of going to one of the DDU's served by the ADC itself, in which case it just needs to be transferred from the ADC to the DDU.<sup>2</sup> Its costs are considerably less than for those pallets that first must go to another SCF and then be transferred to the DDU. Additionally, whereas most 3-D/SCF pallets undergo pallet dumping at a mechanized bundle sorting operation, most 5-D pallets are not dumped. For sacks, on the other hand, the dumping is required regardless of presort level. Altogether, the net outcome is that for pallets the DADC entered 5-D pallet costs, on the average, 4.4% more than the corresponding 3-D pallet, whereas the 5-D sack costs 4% more than the 3-D sack.

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<sup>2</sup> The 65% estimate is from LR-I-332.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
MCGRAW-HILL COMPANIES**

MH/TW et al.-T2-12. Under the proposed rates, the pallet charges for entering a 3-digit/SCF or 5-digit/CR pallet at a destination ADC are higher than the pallet charge for entering an ADC pallet at the destination ADC. Could this give mailers incentives to convert 3-digit/SCF or 5-digit/CR pallets to ADC pallets? If so, how would such practice affect Postal Service costs, assuming an average number of pieces per pallet?

MH/TW et al.-T2-12. An ADC pallet that is entered at the DADC will undergo little handling, because it will be opened and its bundles distributed at the facility where it is entered. A 3-digit pallet, on the other hand, will first require a transfer to the DSCF. A 5-digit pallet requires cross-docking to the DDU and may first require cross-docking to the DSCF. Note, however, that the bundles on the ADC pallet will undergo substantially more bundle handling than if they were on a 3-digit or 5-digit pallet. So the mailer who uses the ADC pallet will pay more bundle charges but lower pallet charges. If the estimated unit costs for pallets and bundles are accurate, then under the proposed rates the mailer will most likely choose the alternative that minimizes overall combined costs to the Postal Service and the mailer.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF  
MCGRAW-HILL COMPANIES**

MH/TW et al.-T2-13. Referring to your answer to ABM/TW et al. – T2-8 that the “difference in productivity between the FSM-1000 and manual sorting is relatively small:” (a) Please specify the productivities in question. (b) Please quantify the capital and operating costs per piece of the FSM 1000. (c) Please specify the costs per piece of manual sorting. (d) Please explain how the capital and operating costs of the FSM-1000 are recovered through the current rates, and whether they are recovered from automation mail charges, non-automation mail charges or both. [e] Please explain how the capital and operating costs of the FSM-1000 would be recovered under the proposed rates, and whether they would be recovered from machinable mail charges, non-machinable mail charges or both.

MH/TW et al.-T2-13. I should start by pointing out that the machine formerly known as the FSM-1000 is now known as the UFSM or UFSM 1000 and has undergone some major changes as the Postal Service continues to seek a distinct and useful role for these machines in the AFSM-100 environment.

Originally, FSM-1000 had four keying stations. They were later equipped with OCR/BCR units that could read flats entered at the first three stations, so that operators could simply hand feed the flats without needing to key them. In a reconfiguration performed in 2002, the first station was replaced by an automatic feeder, creating what is known as the UFSM, which can be used either in an automated feed mode, with the other three stations idle, or in a manual feed/key mode, using the last three stations but with the automated feed station idle.

When I visited the New York Morgan facility in February of this year, I was made aware that yet another configuration of the UFSM/FSM 1000 was in the process of being installed. The new mode, as I understood it, would allow all four stations to be used at the same time. The automated feeder, when used simultaneously with the keying stations, would automatically slow down as much as necessary not to overwhelm the machine's belt. That is, the feeder would look for a belt position that is not being filled from a manual station, then send the next flat to that position. The reduced speed on the automated feeder would also, as I understood it, resolve the problem with high error rates in sorting the more difficult flats. I don't know whether this new configuration is something that the Postal Service plans to install on all UFSM machines. Only the Postal Service can tell the full story regarding the current status of the UFSM/FSM-

1000. I can only report the part of the story that I have observed. I would add, however, that it appeared the newest configuration described above might be able to provide reliable sorting of flats that are not AFSM-100 machinable, but at a much slower productivity – 520 flats per workhour was mentioned as an initial target that is not much different from manual productivity rates.

a. I cannot provide data on what productivities the various configurations of the UFSM/FSM-1000 are achieving in practice today. However, the productivity rates assumed in R2001-1 and in my mail flow model are summarized in the table below, both for FSM-1000 and manual sorting schemes. It is my understanding that these rates were based on MODS data. I should perhaps also add that, although the table includes rates for incoming secondary flats sorting on the FSM-1000, the R2001-1 mail flow model presented by USPS witness Miller (USPS-T-24) assumed that the machines would not be used for incoming secondary sorting.<sup>1</sup>

<b>FSM-1000 And Manual Flats Sorting Productivity Rates</b> (From R2001-1)	
Sorting Scheme	Pieces/ Workhour
FSM1000 BCR/OCR Outgoing Primary	402
FSM1000 BCR/OCR Outgoing Secondary	1000
FSM1000 BCR/OCR Incoming MMP	1176
FSM1000 BCR/OCR Incoming SCF	1171
FSM1000 BCR/OCR Incoming Primary	898
FSM1000 BCR/OCR Incoming Secondary	1221
FSM1000 Key Outgoing Primary	585
FSM1000 Key Outgoing Secondary	726
FSM1000 Key Incoming MMP	507
FSM1000 Key Incoming SCF	581
FSM1000 Key Incoming Primary	552
FSM1000 Key Incoming Secondary	650
Manual Outgoing Primary	436
Manual Outgoing Secondary	426
Manual Incoming MMP	399
Manual Incoming SCF	545
Manual Incoming Primary	390
Manual Incoming Secondary	422

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<sup>1</sup> Under the Postal Service's costing methodology, the FSM-1000 productivity rates would be assumed to be higher than those in the table by a factor of 1/0.74, and the manual rates would be assumed to be higher by a factor of 1/0.71.

b. I have not performed any study of the capital and operating costs of the FSM-1000, or UFSM as it now is called. However, the FSM-1000 has a (R2001-1) piggyback factor of 1.594 (PRC costing methodology) or 1.587 (USPS costing methodology). The piggyback factor is the factor by which direct labor costs must be multiplied to include all other costs, including maintenance and capital costs. The TY03 wage rate (including benefits) for mail processing employees was \$30.84 per workhour. To that must be applied a Periodicals premium pay factor of 1.019. With that information, one can compute the total cost of one FSM-1000 sort of one piece for each of the sort schemes shown in the above table. Take for example the first one, whose MODS based productivity rate is shown as 402 pieces/workhour. The per piece cost for this FSM-1000 sorting scheme then becomes, using PRC costing:

$$\$30.84 * 1.019 * 1.594 / 402 = 12.46 \text{ cents.}$$

Note that the cost of most other sorting schemes, which can be computed in the same way, is less.

c. The piggyback factor for manual sorting of flats in R2001-1 was 1.41 (PRC costing) and 1.398 (USPS costing). Taking the first manual operation in the above table (outgoing primary) as an example, the cost of sorting one piece manually would be:

$$\$30.84 * 1.019 * 1.41 / 436 = 10.16 \text{ cents.}$$

d-e. I am not sure if I have fully understood the question, but the assumption in my cost model, as well as in the Postal Service's R2001-1 flats mail flow model, is that the FSM-1000 machines will be used by flats that are not machinable on the AFSM-100.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-3. Would you expect a local weekly newspaper with a mailing to MADC with as few as 50 pieces weighing fewer than 6 ounces each outside Zones 1- 2 to be able to prepare that mail in any container but a sack? 100 pieces? 500 pieces? If so, please describe the container

NNA/TW et al.-T2-3. I would not.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-5. Do you consider flats sorted on FSM-1000 machines “machinable?” If not, why not?

NNA/TW et al.-T2-5. Obviously, something that is processed on a machine is by definition “machinable.” The FSM-1000 machines were designed to be able to process almost all flats, and I believe they are also capable of sorting some small parcels. However, the most efficient flat sorting machine in the postal system today is the AFSM-100, which not only achieves much higher productivity (pieces/workhour) but a much higher sorting accuracy, because of its link to remote coding of those flats whose address/barcode can not be read by the machine itself.

Please see also my answer to ABM/TW et al.-T2-9.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-6. Have you done any analysis on how your more cost-based rates would affect the in-county subclass? If so, please provide workpapers for any analyses you have done. If not, please explain whether you would expect the in-county subclass to be affected by the application of your analysis to the costs of that class.

NNA/TW et al.-T2-6. My testimony addresses costs. Mr. Mitchell is the rate design witness in this case. I did not develop costs for the in-county subclass, and Mitchell did not propose any rates for the in-county subclass. With regard to the unit cost estimates presented in Exhibit B of my testimony, many of the presort and entry point categories are, of course, not relevant for in-county mail. Furthermore, the mail characteristics data I used in my analysis was data collected for outside county Periodicals only. However, I believe that many of the cost modeling techniques I have used might also be helpful in addressing relevant cost issues for in-county Periodicals. See also witness Mitchell's response to NNA/TW et al.-T1-28.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-7. Please refer to your response to ABM/TW et al T2-2, where you suggest that the best solution to rising periodicals costs is to bypass operations. If all mailpieces capable of responding to the price signals witness Mitchell proposes respond as you and he recommend, what would effects upon rates arising from changes in cost averaging would you expect to see upon the mail that is not susceptible to such response?

NNA/TW et al.-T2-7. Most of the operations that might be bypassed are used also by mail in other classes that would not be capable of responding to the proposed price signals, which only concern outside county Periodicals flats. I do not see increased worksharing and dropshipping by Periodicals mailers as leading to sharply higher unit costs for non-participating mailers. Please see my response to MH/TW et al.-T2-8, particularly part b of that interrogatory, which focuses on the case of transportation costs.

My testimony is about costs. It is not my intention, and I believe neither is it Mr. Mitchell's intention, to make recommendations regarding how mailers ought to respond to the proposed price signals. It is not a given that all mailers will bypass all postal operations that they are capable of bypassing in response to the proposed rates, because mailers must evaluate many factors other than postage costs.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-8. Have you done any analysis of own-price sensitivities of the mail that might have no alternative to sacks, following any increases occasioned by the rates proposed by Time Warner et al? If you have, please supply any documents or workpapers that would demonstrate your conclusions or show your work.

NNA/TW et al.-T2-8.        No.

**RESPONSE OF WITNESS HAL-STEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-9. Have you done any analysis of own-price sensitivities of the mail that might not be susceptible to drop shipment and that must enter in an origin far from destinations, following any increases occasioned by the rates proposed by Time Warner et al? If you have, please supply any documents or workpapers that would demonstrate your conclusions or show your work.

NNA/TW et al.-T2-9. No.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-10. Would you assume that there is a price point at which the mail described in NNA/TW et al T2-9 and T2-10 would disappear from the mailstream?

NNA/TW et al.-T2-10. I have not analyzed these issues. Obviously there is a price point at which all mail would disappear, but I have no special insight to offer on where that point might be for any specific mail category.

NNA/TW et al.-T1-37  
Page 1 of 1

**RESPONSE OF WITNESS STRALBERG (TW et al.-T-2) TO NNA/TW et al.-T1-37,  
REDIRECTED FROM WITNESS MITCHELL**

NNA/TW et al.-T1-37. Do you consider the FSM1000 to be a mechanized or automated sorting machine, or neither? Please explain your response.

NNA/TW et al.-T1-37. The FSM-1000 can be used in either a mechanized or automated mode. The mechanized mode is applied to pieces that cannot be processed in the automated mode.

**RESPONSE OF WITNESS STRALBERG (TW et al.-T-2) TO NNA/TW et al.-T1-38,  
REDIRECTED FROM WITNESS MITCHELL**

NNA/TW et al.-T1-38. Do you believe an AFSM100 machine is capable of sorting newspapers? Please explain your response.

NNA/TW et al.-T1-38. Whether an AFSM-100 machine could process newspapers might depend on the particular characteristic of the newspaper. However, my understanding is that newspapers generally are not sorted on the AFSM-100 machines. I believe one concern with newspapers is the possibility that they might be torn by the strong suction power used in the AFSM-100's high-speed automated induction system. Torn front pages have been a problem for magazines as well, but I believe there has been some progress in addressing that problem.

Please see also my response to ABM/TW et al. T2-9.

**RESPONSE OF WITNESS STRALBERG (TW et al.-T-2) TO NNA/TW et al.-T1-40,  
REDIRECTED FROM WITNESS MITCHELL**

NNA/TW et al.-T1-40. If you believe an AFSM100 machine is either not capable of sorting newspapers or is not actually used for sorting newspapers, do you believe the design of the machine or the operational practice were intentionally directed away from potential use for newspaper mail? Please explain your response.

NNA/TW et al.-T1-40. My impression from the facilities I have visited in recent years is that facility managers are eager to put as much volume on those machines as possible and that they often will process flats with characteristics well outside the official parameters defining AFSM-100 machinability. On the other hand, there is obviously a concern with mail pieces that might be torn or that might cause jams in the machines.

Regarding the intentions of people who designed the machines in the first place, I really cannot speculate. I believe engineers are still tinkering to try to improve the automated induction system. Note also that in order to make its dreams of automating the carrier sequencing of flats come true, the Postal Service will need to produce a high-speed induction system that allows for the induction of all flats. My impression is that it is not there yet.

**RESPONSE OF WITNESS STRALBERG (TW et al.-T-2) TO USPS/TW et al.-T1-12,  
REDIRECTED FROM WITNESS MITCHELL**

USPS/TW et al.-T1-12. On page 15, lines 3-5 of your testimony, you state, “[f]or example, with bundles now being sorted on small parcel and bundle sorters (SPBSs), the cost of sorting bundles is virtually independent of the weight of the bundles and the number of pieces in them.”

(a) Have you conducted any studies, or are you aware of any studies, that support your conclusion that the cost of sorting bundles is virtually independent of the weight of the bundles and the number of pieces in them? If so, please provide the results of those studies. If not, please provide the basis for your claim.

(b) Please confirm that a bundle for a given issue of a periodical would weigh more than a second bundle, if the number of pieces in the first bundle were greater than the number of pieces in the second bundle of the same periodical. If not confirmed, please explain.

(c) When less secure bundling materials are used, isn't it possible that the first bundle described above in (b) might be more likely to break when it is processed? If your response is no, please explain.

(d) When a heavier bundle that contains more pieces is processed through postal dumping mechanisms and equipment, please confirm that it is possible that the weight could not only result in that bundle being broken, but could also result in other nearby bundles being broken? If not confirmed, please explain.

(e) Please confirm that when a heavy bundle containing many pieces breaks, the piece distribution costs would be greater than they would have been had the same number of pieces been secured in multiple bundles prepared at the same presort level, assuming that the multiple bundles did not break. If not confirmed, please explain.

USPS/TW et al.-T1-12. Please see my answer to USPS/TW et al.-T2-12.

a. The purpose of the analysis described in my testimony was to identify and separate the Periodicals mail processing costs that vary with, respectively, the number of pieces, the number of bundles, the number of sacks, the number of pallets and the number of pounds. I presented the results of that analysis to Mr. Mitchell, who used the results to develop an alternative and more cost based rate design. Starting with the analysis presented in LR-I-332, I concluded that some of the costs identified as per-bundle costs were in fact costs that would vary with the size of the bundles. I defined those costs as weight related – although they can be expressed on a per-bundle basis, they do in fact vary with the bulk, or size, of the bundles sorted in a given bundle sorting operation, rather than with the number of bundles.

The bundle unit costs that Mitchell used in his rate design are those I identified as varying by the number of bundles, rather than by weight. I also analyzed the cost impact of bundle breakage but, unlike the suggestion you appear to be making in several interrogatories, I did not use bundle size as a driver for bundle breakage costs. The reason is that I believed, and still believe, that the most important drivers for bundle breakage costs are first of all whether a bundle is carried in a sack or a pallet, and secondly the relationship between container and bundle presort level. Holding those factors constant, one can probably show that a number of characteristics of the bundle itself also have some impact.

b. Yes, if you assume that all copies have the same weight.

c. All other factors being the same, including bundle preparation, container type and the treatment they receive when the container is dumped and afterwards, the probability of breakage is probably greater for the larger bundle.

d. It is possible. In my observation, such destruction is most likely to occur when an excessive volume of bundles is dumped all at once, creating an avalanche effect. When bundles are released more gradually onto a conveyor belt, their chances of survival are much higher.

e. If I understand the question, it is whether the pieces in the bundle that breaks will experience higher per-piece costs than the pieces in the bundles that don't break. I believe that is true in most cases. On the other hand, if the smaller bundles had been carried in a sack and the larger bundle on a pallet, I believe the probability of breakage for the smaller bundles would be much higher.

One should also consider the situation that after all is more normal, at least when the bundles come from a pallet, namely that both the large and the small bundles do not break. If, for example, a 5-digit bundle with 30 pieces and three 5-digit bundles with 10 pieces of the same size all survive, then the three smaller bundles will require three bundle sorts instead of one for the large one, and in the 035 operation when the bundles are broken and the pieces "prepped" for piece sorting, the three smaller



bundles together will again require about three times as much work as the large bundle by itself.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-1. Between the time that you became aware that you would testify in this proceeding and today, did you conduct any field observations of flats mail processing, distribution, and delivery activities at postal facilities? If your response to this question is yes, please list the dates, facility type, facility location, and tasks observed. Please provide any copies of notes that you may have taken during those observations.

USPS/TW et al.-T2-1. Yes. On February 19, 2004, I visited the Morgan P&DC in New York, from around midnight until 2:30 am. I mostly observed flats processing and some of the 035 mail prep operation. I did not take any notes during those observations.

USPS/TW et al.-T2-2

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-2. Between the time that you became aware that you would testify in this proceeding and today, did you conduct any field observations of flats printing, binding, mail preparation, and distribution activities at mailer facilities? If your response to this question is yes, please list the dates, mailer names, facility names, facility locations, and tasks observed. Please provide any copies of notes that you may have taken during those observations.

USPS/TW et al.-T2-2.      No.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-3. On page ii of your testimony you state, "[w]hereas my original analysis concluded that there was no need to apply a CRA adjustment to piece sorting costs, it now becomes necessary to use one for piece sorting costs as well as bundle, sack and pallets costs."

(a) Please state the costs (piece distribution, bundle, sack and pallet costs) to which you originally applied a CRA adjustment and why.

(b) Please state the costs (piece distribution, bundle, sack and pallet costs) to which you have applied a CRA adjustment factor in your revised testimony. In cases where your use of an adjustment factor changed, please explain why.

USPS/TW et al.-T2-3.

a-b In both cases, I divided the mail processing costs attributed to Periodicals for TY03 under PRC costing into three categories, by MODS operation:

- (1) piece distribution costs;
- (2) all other mail processing costs modeled in my analysis; and
- (3) mail processing costs that I did not model, e.g., forwarding.

Originally, the modeled piece distribution costs came out very close to the CRA piece distribution costs. I therefore only adjusted all other modeled costs, as a group, so that total modeled costs would equal the sum of the first two groups of attributed costs.

With the change reported in the introductory note to my testimony, I adjusted the modeled piece distribution costs to be equal to the attributed piece distribution costs and all other modeled costs to be equal to the second group of attributed costs.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-4.

(a) Do you believe that a cost estimate which measures a total Periodicals mail processing unit cost would exhibit a higher degree of accuracy level than cost estimates which have been developed for subcomponents such as piece distribution, bundle processing, pallet processing and sack processing activities? Please explain your answer.

(b) Do you believe that the piece distribution cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the piece distribution cost estimates.

(c) Do you believe that the bundle cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the bundle cost estimates.

(d) Do you believe that the sack cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the sack cost estimates.

(e) Do you believe that the pallet cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the pallet cost estimates.

USPS/TW et al.-T2-4.

a. Much can be said about the accuracy or inaccuracy of the method used to attribute mail processing costs to different mail classes, including Periodicals. If you think only in terms of IOCS sampling accuracy, then it makes sense to think that estimates of a larger group of costs would be more accurate than estimates of only subsets of those costs. However, considering other uncertainties about the current costing method, such as the attribution of "not handling" costs, I would tend to conclude that piece distribution costs, which have a higher percentage of "direct" costs, may be the most accurate.

My testimony in this case is not about whether or not the costs attributed to Periodicals are accurate. The costs that the Commission has decided should be attributed to Periodicals are the costs that Periodicals mailers have to deal with and the costs

Periodicals mailers can avoid only by bypassing as many as possible of the postal operations where those costs are incurred.

b-e I don't believe one should ever assume that cost estimates are 100% accurate. For one thing, even if by chance they were 100% accurate at a particular point in time, it is unlikely that they would be that accurate next year.

For unit cost estimates based on mail flow models, I don't believe the Postal Service provides estimates of statistical accuracy and I don't believe providing such estimates is possible.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-5. On page 3, lines 4-7 of your testimony, you state, "I believe rates developed on the basis of this information, as described in the testimony of witness Mitchell, will give both large and small mailers incentives to improve their mail preparation and entry practices, thus reducing Periodicals postal costs."

(a) Would you classify the five complainants as "large" mailers? If not, how would you classify them?

(b) Please confirm that some mailers may not change their mail preparation and entry practices in response to the "incentives" you describe. If not confirmed, please explain.

(c) In general, do you believe that large mailers are more likely to change their mail preparation and entry practices in response to the proposed "incentives" than smaller mailers? If not, please explain.

USPS/TW et al.-T2-5.

a. In the sense that they all mail some large publications, yes. Note, however, that several of the complainants also have short-run publications, such as the Fairchild titles (Condé Nast) and the Transworld titles (Time Warner).

b. I believe nearly all mailers would at least consider what changes would be appropriate given a new rate structure and a different set of economic incentives.

c. I think each organization would react somewhat differently. See, for example, the varied responses of the five complainants to POIR 1, question 2. However, whether large or small, publications will need to review their mailing practices and search for the best way to adapt to changed circumstances. Smaller mailers would probably depend more on their printers to take initiatives to modify existing practices.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-6. On page 6, lines 4-7, you state, "[s]uch charges would, in my opinion, quickly reduce the fairly widespread practice among Periodicals mailers of sending sacks with only one or a few pieces in them through the postal system."

(a) Please list the reasons why you feel Periodicals mailers are currently engaged in this "fairly widespread practice."

(b) For each reason in the list, please discuss whether there are any characteristics of those mailers engaged in the practice that distinguishes them from those mailers not engaged in the practice (e.g., size of mailer).

(c) In footnote 4 of your testimony you state, "If given correct price signals that require them to bear the costs of choosing such practices, however, chances are that mailers will avoid such practices in almost all cases." Did you survey mailers to see why they currently enter skin sacks and whether or not they would stop doing so were the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43) to be adopted and implemented? If not, what is your basis for forming the conclusion in footnote 4.

USPS/TW et al.-T2-6.

a. Please see my answers to MH/TW et al.-T2-2 and ABM/TW et al.-T2-6.

b. Please see my answer to part a. I do not know what motivates large mailers that is different from what motivates small mailers.

c. I did no survey. However, in discussions with Time Warner personnel, and after reviewing numerous mail.dat files for magazines owned by Time Inc., I am convinced that at least one large mailer would remove from the system many of the sacks it now uses.



**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-7.

- (a) Did you evaluate the impact that site-specific Periodicals mail volumes have on piece distribution costs? If so, please provide the results of that evaluation.
- (b) Please confirm that witness Mitchell's proposed rate schedule (TW et al.-T1-1, page 43) could reduce the amount of Periodicals mail processed in some piece distribution operations. If not confirmed please explain.
- (c) If witness Mitchell's proposed rate schedule (TW et al.-T1-1, page 43) were implemented, and additional Periodicals mail bypassed piece distribution operations, please confirm that it is even more likely that some facilities would not find it cost effective to process Periodicals on postal equipment due to volume considerations, such that this mail would have to be processed manually. If not confirmed, please explain.
- (d) Please confirm that if a greater percentage of mail were ultimately processed manually in a given operation as a result of the witness Mitchell's proposed rate schedule (TW et al.-T-1, page 43) being implemented, the unit piece distribution costs would increase for those mail pieces requiring piece distribution in that operation. If not confirmed, please explain.

USPS/TW et al.-T2-7. The questions appear to presume that Periodicals flats piece distribution needs to be done separate from all other flats sorting, when in fact the processing occurs on the same sorting machines, using the same sorting schemes and aiming for the same dispatches to the same locations.

a. I have no doubt that the piece distribution cost in a given facility may vary with the volume of mail distributed in that facility. Some years ago when I was able to compare productivity rates in many different facilities, it appeared that the small facilities were achieving higher productivity rates, especially in manual operations. I used to conclude that this discrepancy had more to do with stability and morale of the workforce in more rural locations than with volume as such. Today, I would assume that facilities with AFSM-100 machines achieve significantly better flats sorting productivity than those without. The notion that Periodicals volume, rather than total flats volume, should determine flats sorting productivity frankly doesn't make sense to me.

b. Confirmed that anything is possible. However, as the proposed rates include per-bundle charges, they might just as well serve to discourage use of very small bundle sizes and therefore result in some mailings being somewhat less presorted than today.

c. Not Confirmed. Your statement that it is “even more likely” that facilities would not find it cost effective to process Periodicals on postal equipment is surprising, at least with reference to piece sorting. At postal facilities I have visited in recent years I have mostly heard management say they were trying to feed as many flats through the AFSM-100 machines as possible, even flats that exceed the official parameters for AFSM-100 machinability. To take Periodicals off these machines when the machines often have extra capacity does not seem to make sense.

One thing I do believe happens in some facilities is that some flats are processed manually because there are too many flats, even with the AFSM-100, to get them all processed before some critical dispatch time.

When it comes to incoming secondary processing, at least some facilities combine Periodicals either with First Class or Standard flats. There really should be no need to keep Periodicals separate at that stage. The question of whether Periodicals need to be kept separate all the way to the carrier was discussed extensively by the 1998-99 Joint Industry/Postal Service Periodicals Review Team, in which I participated. The team agreed that such separation is not necessary and not desirable, and that it was more efficient to process incoming Periodicals flats with either Standard or First Class or both.<sup>1</sup>

d. If I understand your question, you are suggesting that facilities would process Periodicals manually, leaving the machines (AFSM-100's) underutilized and thereby raising the unit costs of processing, and then would blame it on Mr. Mitchell's proposed rate schedule. It seems to me the only reason for leaving the machines underutilized in

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<sup>1</sup> See Report of the Periodicals Operations Review Team, sponsored by the American Business Press, the Magazine Publishers of America, and the United States Postal Service, March 1999. The report was included as part of library reference LR-I-193 in Docket No. R2000-1. See also the direct testimony of James O'Brien, TW-T-2, on behalf of a coalition of Periodicals mailers in the same docket.

USPS/TW et al.-T2-7

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order to process Periodicals manually would be to keep an excess manual workforce occupied.

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USPS/TW et al.-T2-8. The Postal Service will soon deploy the Automated Package Processing System (APPS), which can be used to process flats bundles.

(a) Did you analyze the impact that the APPS would have on bundle sorting costs? If so, please provide the results of that analysis.

(b) Did you analyze the extent to which the APPS is compatible with current postal mail preparation requirements and mailer preparation methods? If so, please provide the results of that analysis.

USPS/TW et al.-T2-8.

a & b. The purpose of my testimony was to develop unit costs and mail volume estimates consistent with TY03, which is the basis for the rates now in effect. The APPS machines are not relevant to TY03, and I did not analyze them. Nor do I possess the type of detailed information about the APPS and the Postal Service's plans for it that one would need to perform the types of analyses suggested.

A short video about the APPS, prepared by Lockheed Martin, that I viewed recently emphasizes the role of the machine as a parcel sorter and its importance for the Postal Service's parcel network. But if the machine is also going to be used on a significant scale to sort flats bundles, and if its productivity as a bundle sorter is significantly different from that of the SPBS, then it should of course be included in future updated versions of the cost model presented in my testimony.

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USPS/TW et al.-T2-9. On page 5, lines 24-27 you state, "[s]ack related costs include the cost of sorting sacks, either on mechanized sack sorters or manually, loading and unloading sacks from trucks, moving them across postal platforms and workroom floors, opening sacks, shaking out their contents, putting aside empty sacks and recycling them for further use by mailers."

(a) Please confirm that the configuration of a specific postal processing facility (e.g., single story vs. multiple story, available staging space, platform location and configuration, etc.) would affect sack processing costs at that facility. If not confirmed, please explain.

(b) Please confirm that the sack costs you develop in your testimony reflect the average sack cost characteristics exhibited by the wide spectrum of postal facilities. If not confirmed, please explain.

(c) If periodicals, on average, were entered at facilities with characteristics producing above average sack cost (e.g., a greater than average distance were traveled within a given plant), would that increase the sack costs above the costs presented in your testimony? Please explain your answer.

USPS/TW et al.-T2-9.

a. Confirmed. Sack handling methods differ from facility to facility and costs also differ.

b & c. My mail flow model, relying on the mail flows developed in LR-I-332 with a few modifications described in my testimony, is meant to represent the flow of Periodicals sacks through the postal system, which is not identical to the flow of all sacks. For example, a sack carrying parcels is typically opened at the destinating BMC, using the BMC's mechanized sack shakeout method. The BMC then sorts the parcels to the DDU level. In many cases, Standard sacks are also opened at the BMC. Periodicals sacks, on the other hand, are not opened at the BMC and often do not go to the BMC at all but are transported to the DADC, DSCF or DDU depending on their level of presort.

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USPS/TW et al.-T2-10. On page 6, lines 11-12 of your testimony, you state, "[p]allets incur costs as they are moved on or off trucks, across platforms and across the workroom floor to the bundle sorting area where the pallet's contents are distributed."

(a) Please confirm that the configuration of a specific postal processing facility (e.g., single story vs. multiple story, available staging space, platform location and configuration) would affect pallet processing costs at that facility. If not confirmed, please explain.

(b) Please confirm that the pallet costs you develop in your testimony reflect the average pallet cost characteristics exhibited by the wide spectrum of postal facilities. If not confirmed, please explain.

(c) If periodicals, on average, were entered at facilities with characteristics producing above average pallet costs (e.g., a greater than average distance were traveled within a given plant), would that increase the pallet costs above the pallet costs presented in your testimony? Please explain your answer.

USPS/TW et al.-T2-10.

a. I confirm that postal facilities have different configurations and differ in their methods of handling pallets.

b & c. My mail flow model, relying on the mail flows developed in LR-I-332 with a few modifications described in my testimony, is meant to represent the flow of Periodicals pallets through the postal system, which is not identical to the flow of all pallets. For example, a Standard pallet may be presorted to the DBMC and is transported to the DBMC where it is opened and its contents distributed. For Periodicals pallets, on the other hand, the DBMC presort level is not permitted, but they may be presorted to the DADC and are therefore transported to the DADC where they are opened and their contents distributed.

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USPS/TW et al.-T2-11. On page 6, line 16 you state, "[u]se of pallets generally causes fewer costs than if the flats are entered in sacks." In your analysis, did you find any circumstances or instances in which flats on pallets cost more than comparable flats in sacks, at a given presort level? If so, please describe those circumstances or instances.

USPS/TW et al.-T2-11. A pallet generally offers cost advantages because it can replace not one but many sacks. But this depends of course on the volume of mail loaded on a pallet versus the volume in each sack. If, for example, a 5-digit pallet weighing 250 pounds is entered far from its destination, e.g. at the originating ADC, then, according to the pallet unit cost estimates in Exhibit B of my testimony, such a pallet would cost the Postal Service about \$44, and five fifty pound sacks carrying the same volume would in fact cost less.

Generally, it does not make sense to make up a pallet to a given destination unless one has sufficient volume going to that destination.

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USPS/TW et al.-T2-12. On page 8, lines 1-2 of your testimony, you state, "[t]he current bundle minimums are six pieces for Periodicals flats and ten for Standard flats. Postal officials have been known to argue that both minimums should be raised."

(a) Please confirm that bundle size is a bundle cost driver. If not confirmed, please explain.

(b) Please confirm that bundles size is not accounted for in the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43). If not confirmed, please explain.

(c) In the course of developing this proposal, did the complainants consider incorporating bundle size ranges into the rate schedule? If not, please explain why not.

(d) Please confirm that bundle breakage is a bundle cost driver. If not confirmed, please explain.

(e) Please confirm that the specific materials used to secure bundles affect the bundle breakage rates in postal facilities. If not confirmed, please explain.

(f) Please describe the materials that mailers use to prepare and secure bundles and the impact that these materials have on postal bundle breakage rates, based on your experiencing assisting with the analysis contained in Docket No. R2000-1, USPS LR-I-297 (as described on page 1, lines 22-27 of your testimony).

(g) Please confirm that the materials mailers use to secure bundles are not simply a function of postal equipment and operations requirements, but are also a function of the equipment and operations requirements at the mailers' plants. If not confirmed, please explain.

(h) Please confirm that bundling materials are not accounted for in the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43). If not confirmed, please explain.

(i) In the course of developing this proposal, did the complainants consider incorporating bundling materials into the rate schedule? If not, please explain why not.

(j) Please confirm that if piece minimums were raised, the average weight of bundles would increase. If not confirmed, please explain.

(k) Please confirm that if the average weight of bundles increases, the bundle breakage rates would tend to increase. If not confirmed, please explain.

(l) Have you conducted, or are you aware of any studies which have been conducted, in which the impact of bundle size or weight on bundle breakage rates, bundle costs, or piece distribution costs was analyzed?

(m) Are you aware of any studies that attempted to determine the point at which larger bundles may become problematic because the additional weight results in higher bundle breakage rates and piece distribution costs that outweigh the lower bundle distribution costs (in per-piece terms) associated with larger bundles? If so, please provide the results of those studies.



(n) Please confirm that bundle activities can affect piece distribution costs due to the fact that bundles can break. If not confirmed, please explain.

(o) On page 10, lines 15-18 you state, "LR-I-332 also estimates the costs of bundle breakage and presents them as per-bundle costs. I have defined them instead as per-piece costs. Most of the extra costs incurred when a bundle breaks prematurely are due to the additional piece sorting required for the previously bundled pieces." If bundle characteristics do, in fact, affect piece distribution costs, please explain why it is appropriate to measure separate and distinct bundle and piece distribution costs, which are, in turn, used to support separate and distinct rates.

USPS/TW et al.-T2-12. Before addressing the many individual questions pertaining to bundles and the possibility that they may break prematurely, let me point out that the Postal Service fairly recently (I believe 2003) put in place various restrictions on how packages (bundles) are prepared, aimed at enhancing package security. DMM sections M020.1.4 through 1.6 in particular. If these regulations are effective, they should presumably by now have led to a significant reduction in the frequency of bundle breakage.

It is my understanding that these regulations were based in large part on data collected during the 1999 MTAC sponsored package integrity study, where I participated in the data collection phase. The raw data from that study are listed in LR-I-297 in Docket No. R2000-1. Besides participating in that study, I made extensive observations of bundle sorting operations in many postal facilities as member of the 1998-99 Periodicals review team, and on other occasions. Based on that experience, and on examining the data in LR-I-297, I am convinced that the most important factor affecting bundle breakage costs is whether bundles are carried in sacks or on pallets, as pallets provide far better protection for the bundles. The second most important factor is, I believe, the presort of the container versus the presort of the bundle. For a 5-digit pallet with carrier route bundles, bundle breakage simply is not an issue. Similarly, when a bundle is at the same presort level as the container in which it is carried (e.g., a 3-digit bundle in a 3-digit sack), even if the bundle does break prematurely, no extra piece sorting is required.

There is little doubt that things like the bundling material used and the physical size of a package, along with how the bundling material is applied and many other factors, all affect the probability that a bundle will stay intact until it is meant to be broken. But

having already made such factors the subject of very detailed regulations, I cannot see that it would make sense to also make them independent rate elements. The Postal Service has a right to demand that bundles be secured sufficiently well to withstand, with high probability, the processing they are likely to be subjected to. If current regulations are ineffective in that regard, then maybe they should be modified.

Please see also my answer to USPS/TW et al.-T1-12, redirected from witness Mitchell.

a. I agree, in the sense that the physical size of a bundle determines how much space it occupies in the container into which it is sorted and thereby how frequently such containers must be replaced. In my analysis and in the proposed rate design, the associated costs are defined as weight related costs and are not part of the proposed per-bundle charges.

b. Confirmed that bundle size is not a proposed rate element.

c. I am not the rate design witness in this case, Mr. Mitchell is. However, I can say that I recall no conversation with Mitchell or anyone else involved in preparing the TW et al. proposal where such an idea came up.

d. Yes, in the sense that when bundles break costs tend to be higher than when they don't break.

e-i. Please see my general comments above. Bundling materials do affect the probability of breakage, as do numerous other factors. I don't believe it is necessary to introduce bundling material as a rate element, but the Postal Service should be free to refuse to accept bundling materials it considers unsuitable. Besides the 1999 MTAC study mentioned above, the mail characteristics study described in LR-I-87 in Docket No. R2000-1 also recorded data on bundle securing materials. It found, for example, that 8.3% were secured by strings and 3.7% by rubber bands.

j-m. Please see my general comments above. Periodicals bundles cannot exceed 20 pounds, due to weight limitations on SPBS bundle sorters. Additionally, current regulations already impose various size limits that depend on whether the bundles are in sacks or on pallets and various other factors. I do not believe that in addition to an

already complex set of regulations governing permissible bundle size one should also turn bundle size into a rate element. Such a rate element would need to consider the numerous other factors that also affect the probability of breakage and would add a high level of complexity to the rate structure.

n. Confirmed.

o. Separating the costs incurred by individual pieces and by bundles, and reflecting those costs in the rate structure, will provide mailers with the most appropriate and cost-based price signals.

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USPS/TW et al.-T2-13. On page 10 of your testimony, you describe the mail preparation rules in which palletized periodicals are always assessed rates based on the bundles presort level, whether the mail pieces are barcoded or not, while sacked periodicals are assessed bundle-based rates only if the mail pieces are barcoded. Please confirm that the Postal Service could impact costs by changing these mail preparation rules without having to adopt and implement the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43). If not confirmed, please explain.

USPS/TW et al.-T2-13. The Postal Service can, if it wishes, change the mail preparation rules that assign different presort levels to sacked bundles that in fact have the same presort level, based on whether or not the pieces inside the bundles are barcoded. Such a regulation change would remove the anomaly described in the part of my testimony that you refer to. It would not eliminate the need for truly cost-based Periodicals rates.

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USPS/TW et al.-T2-14. On page 10, lines 2-4 you state, "For palletized flats, the presort rate level is defined by bundle presort; the presort level of the pallet is ignored, even though it has a major impact on postal costs."

(a) Please confirm that the container presort level affects the bundle processing costs as you measure them. If not confirmed, please explain.

(b) Assuming that the container presort level does affect the bundle processing costs as you measure them, please explain why it is appropriate to measure separate and distinct container and bundle processing costs, which are, in turn, used to support separate and distinct rates.

(c) Please confirm that the container presort level affects the piece distribution costs as you measure them. If not confirmed, please explain.

(d) Assuming that the container presort level does affect the piece distribution costs as you measure them, please explain why it is appropriate to measure separate and distinct container and piece distribution costs, which are, in turn, used to support separate and distinct rates.

USPS/TW et al.-T2-14.

a. Confirmed. The number of bundle sorts required for a bundle depends primarily on the presort level of the container that the bundle comes in.

b. Please note that the container costs measured in my analysis are all the costs incurred by the container up to the point where it is emptied of its contents and recycled for future use. The bundle costs measured are the costs incurred by the bundle after it has left the container it came in. The costs are therefore distinct. Reflecting both categories of costs in the rates sends more cost-based price signals to the mailers than if they were not considered separately. For example, a sack with three bundles and a sack with one bundle, assuming the sacks have the same presort level and are entered at the same point in the Postal System, will undergo identical processing steps. But the bundle handling costs for the sack with three bundles are three times as large as for the sack with one bundle. Conversely, if three bundles are going to the same location they will incur lower sack costs if they travel in one sack than if they travel in three separate sacks.

c. Confirmed. The per-piece costs per bundle and container presort level and container type, which I presented to Mr. Mitchell for use in his rate design, are shown in Table B3a of my testimony. Please note that piece sorting costs vary far more with bundle presort level and with piece characteristics than with container presort level. In fact, the differences across columns in any given line of table B3a (i.e., the differences due to variation in container type and container presort level) are due entirely to the different impact of bundle breakage. Because those variations are small, witness Mitchell used only the weighted averages across each row in Table B3a, effectively assuming that piece sorting costs vary only with bundle presort level and piece characteristics.

d. Please see my answer to part c. The purpose of computing separate and *distinct per-piece, per-bundle and per-container rates* is to provide more cost based price signals, as explained in greater detail in Mr. Mitchell's testimony. However, because the impact of container type and container presort level on piece sorting costs are due entirely to the bundle breakage issue, one might perhaps argue that rather than expressing bundle breakage related costs on a per-piece basis as done in my model, those costs should be tied to container type and container presort.

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USPS/TW et al.-T2-15. On page 9 of your testimony you state, "[n]ot recognized is machinability of the mail pieces, even though machinability has become much more important with the advent of the AFSM-100."

(a) Please confirm that machinability is reflected in your cost estimates found in Table B3a. If not confirmed, please explain.

(b) If some mail pieces within a given mailing are assessed rates from one of the "machinable" cells in Table B3a, but those mail pieces are ultimately processed in a postal facility that does not contain an AFSM100, do you believe that the rates for those mail pieces would reflect their costs? Please explain your answer.

USPS/TW et al.-T2-15.

a. Confirmed.

b. Just like many pieces that never will see a sorting machine but nevertheless receive barcode discounts under current rates, a machinable piece without a machine to be processed on will likely incur greater costs, other factors being equal, than it would have if an AFSM-100 were available. The same can be said for a piece destined to a 5-digit zone for which incoming secondary is still only done manually, even if it is done by AFSM-100 for other zones served by the same processing facility.

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USPS/TW et al.-T2-16. On page 10, line 15, through page 11, line 2, you discuss how you treated piece distribution costs that were incurred as a result of bundle breakage. Please describe all assumptions within your models concerning bundle breakage rates, including the sources used for those rates.

USPS/TW et al.-T2-16. Please note that I did not develop the method for analyzing bundle breakage costs that is used in LR-I-332 and which I adopted. In my Docket No. R2000-1 direct testimony I developed a different, but in many ways related method that I presented as an alternative to the grossly misleading and inadequate bundle breakage analysis that had been proposed by the Postal Service in its estimates of presort and automation cost savings. The Commission accepted my methodology and used it as a basis for setting presort and automation flats discounts. PRC Op. R2000-1, November 13, 2000, ¶ 5652.

Because the LR-I-332 model used the same bundle breakage data source and a similar methodology, I simply adopted it, because incorporating my alternative method would have been a difficult and error prone task given the time that was available. The main difference between my R2000-1 method and the LR-I-332 method is that my method attempted to explicitly account for the fact that employees at bundle sorting operations sometimes will re-bundle broken bundles.

The bundle breakage rates assumed are the same as those listed on page 48 of my R2000-1 direct testimony. Those rates were developed from an MTAC sponsored data collection in which I participated and whose results are presented in LR-I-297.



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USPS/TW et al.-T2-17. On page 17, lines 27-29, you state "[b]ecause of the rapid growth in Periodicals processing costs since the previous rate case, on top of years of large, unexplained increases before that, another large increase seemed inevitable." According to the Postal Service version of the CRA, the marginal Periodicals unit costs over the past 10 years are as follows:

YEAR	OUTSIDE COUNTY PERCENT INCREASE UNIT COSTS FROM PREVIOUS FY
FY1994	17.3 cents ---
FY1995	18.2 cents 5.2%
FY1996	19.4 cents 6.7%
FY1997	20.1 cents 3.4%
FY1998	21.3 cents 6.0%
FY1999	23.4 cents 10.0%
FY2000	23.2 cents (0.9%)
FY2001	24.0 cents 3.5%
FY2002	24.4 cents 1.7%
FY2003	24.0 cents (1.6%)

(a) Please confirm that these figures are correct. If not confirmed, please provide what you feel are the correct figures.

(b) Please confirm that Periodicals Outside County marginal unit costs have leveled off since FY 1999. If not confirmed, please explain.

(c) In Docket No. R2001-1, Postal Service operations witness Kingsley stated that the AFSM100 Phase I deployments had been completed at the time the case was filed (September 2001) and that Phase II deployments would be completed by April 2002 (please see USPS-T-39 p. 15 at 21-23). Given this statement, as well as the fact that wages generally increase over time, isn't it possible that the AFSM100 deployments, as well as other recent cost containment measures, may have had a positive impact when it comes to containing Periodicals costs? Please explain your answer.

USPS/TW et al.-T2-17.

a. Confirmed for FY1994-96 and FY2000-2003. For FY97-99, my records give the numbers 19.8, 21.0 and 23.2. I assume the difference in those years may be due to different definitions of "the Postal Service version of the CRA." I have checked my hardcopy printouts of the FY97-99 CRA, and they appear to support my numbers.

b. It would appear to be so, at least from the numbers presented above. I think, however, that before concluding that the problem of rising Periodicals costs has been resolved, there are several factors that need to be considered, including:

(1) The largest increase in Periodicals costs occurred before the period you have focused on. See my direct testimony TW-T-1 in R2000-1, particularly Exhibit 1. Because Periodicals costs increased so much between 1986 and 1991 from the level they had been at for years when almost all processing was done manually, one might have expected costs to come down again from the abnormally high levels that they reached in the early 1990's, especially with sharply improved technology and increased worksharing. That does not appear to have happened.

(2) Comparisons of this kind should make adjustments for changes in costing methodology. I think, for example, that in FY2003 there has been introduced a new methodology for attribution of Segment 7 (carrier street time) costs that attributes less costs to Periodicals, although it attributes at least as high costs overall. That change, which I believe explains the cost reduction shown for FY2003, may be good news for Periodicals mailers if the Commission agrees with the new methodology. But it is not an indication of improvements in the way Periodicals are handled. Additionally, I believe the above cost figures from FY94 and FY95 reflect an assumption that mail processing costs are 100% volume variable, unlike the cost figures from more recent years.

(3) Comparisons of this kind should make adjustments for changes in worksharing, dropshipping and mail piece characteristics. For example, there has been a substantial increase in dropshipping by Periodicals mailers in recent years, and that has resulted in reduced transportation costs. Segment 14 purchased transportation costs attributed to Periodicals were \$355 million in FY2000 but only \$278 million in FY2003. At the same time, there was a significant decrease in the average piece weight of periodicals from FY2000 to FY2003. Weight does affect cost, and so reduced weight should also have produced lower costs.

c. I have no doubt that the deployment of AFSM-100 machines, which are technologically far superior to earlier flats sorting machines, has helped reduce or at least contain the increase in Periodicals costs. I also have no doubt that the Postal Service's recent cost containment efforts such as work force reduction have had a positive impact. On the other hand, given repeated claims by postal officials that flats processing productivity had increased almost 100% in just a couple of years, I think one must conclude that the small gains actually observed are very modest indeed.

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USPS/TW et al.-T2-18. Within the TW et al. LR-1 "cost\_variables.xls" workbook on the "Productivities" spreadsheet, you rely on a productivity of 428.16 pieces per hour for the "Sack Sorter (PIRS 98)." This figure measured sack sorting costs at BMCs only. Did you measure a productivity figure for mechanized sack sorters housed at Processing and Distribution Centers / Facilities (P&DC/F) and, if so, did you incorporate that into your model as well? If so, please discuss where this information is located and how it was incorporated into the model.

USPS/TW et al.-T2-18. I did not measure any productivity figure. I used those available from Postal Service data. My model (and LR-I-332) assumes sacks to be sorted manually at non-BMC (non-transfer hub) facilities. A planning guidelines (PGL) productivity figure of 192.42 sacks per workhour is used. This figure is referred to in the PGL as representing "Sort sacks/Mos from RLR table/swth to container." The assumption is that instead of sorting sacks that arrive at a roller (RLR) table or sawtooth (swth), sacks are sorted from the container in which they have arrived into other containers. The operation is always preceded in the model by an operation called "get OWC," which refers to bringing to the sack sort area the container into which a particular sack will be sorted. It is followed by a move OWC operation that takes the container into which sacks have been sorted either to a bundle sorting operation or the platform area from which the sacks will be dispatched.

It has been my understanding that there are not many mechanized sack sorters left in non-BMC facilities. It has also been my understanding that such systems do not eliminate manual sack sorting even in the facilities where they remain but are mainly conveyor belt systems on which sacks are moved around a facility. For example, a sack sorter in an SCF might send outbound sacks to a sawtooth area, where the sacks still need the manual operation described above before they can be dispatched to the outbound truck.

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USPS/TW et al.-T2-19. On page 22 lines 13-16 of your testimony, you state, "[b]ut having measured overall productivity rates at these operations is not sufficient for our purposes, because those productivity rates represent other work besides the actual bundle sorting, such as opening sacks and shaking out their contents onto a moving belt, disposing of the sacks, dumping pallets, etc."

(a) Please confirm that postal data collection systems, such as MODS, only collect information pertaining to the "overall productivities" that you describe. If not confirmed, please explain.

(b) On page 23, lines 18-19, you state, "[a]nalysis by the LR-I-332 team, based on LR-I-88, indicated that 43.41% of mechanized bundle sorting hours are spent actually sorting bundles." Please describe how that figure was developed.

(c) If the rates proposed by witness Mitchell (TW et al.-T-1, page 43) were implemented, presumably the cost studies upon which the rates were based would have to be updated periodically. Given that data such as the 43.41% from LR-I-88 and manual bundle sorting productivities you describe could not be obtained directly from normal postal data collection systems, it is also assumed that special studies would have to be conducted periodically as well. Please describe how you propose these data would be collected, including the sample sizes involved and the frequency with which these figures should be updated.

USPS/TW et al.-T2-19.

a. Confirmed.

b. The calculation is performed in a spreadsheet called machines.xls, included in LR-I-332. It appears to be a weighted percentage, over various facilities, of keying personnel relative to total employee complements at SPBS operations.

c. I am not prepared to propose a plan for such a data collection or to estimate required sample sizes. One would first need to identify precisely what data one wanted such a study to produce and how the data would be used. I do not believe it would be necessary to repeat such a study with any great frequency. However, in composite operations such as an SPBS bundle sorting operation, where as you point out MODS data only produce aggregate estimates of bundles sorted per workhour, there obviously is a need to analyze in more depth, whether by industrial engineering or some other method, the productivity that can be expected at sub operations such as dumping of

sacks, dumping of pallets, removal of containers with sorted bundles, etc. One goal of such an analysis, which I believe also needs to be done at manual bundle sorting operations, would be precisely what I have tried to do based on the data I had available, namely to develop per-bundle, per-sack and per-pallet unit costs. Such information should be useful not only in the development of cost-based rates but for facilities to plan their manpower needs at different operations in response to varying volumes.

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USPS/TW et al.-T2-20. In footnote 17 of your testimony you state, "[i]n manual sorting from a pallet, the bundles are not dumped onto a belt but lifted from the pallet and thrown directly into the containers for which they are intended."

(a) When is the last time you observed bundle sorting operations in postal facilities, and in which facility(ies) did this occur?

(b) Are you aware that some facilities dump pallets onto non-SPBS conveyors (e.g., "model 89" conveyors), which are staffed with employees that sort the bundles into nearby rolling stock?

USPS/TW et al.-T2-20.

a. My most recent visits to postal facilities in which I had opportunity to observe bundle sorting operations were to the DVD (Northern New Jersey) and Queens (New York) plants on January 29, 2003, and to the Carol Stream and Palatine (Illinois) facilities on February 11, 2003.

b. I do not recall observing pallets being dumped on that type of conveyor.

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USPS/TW et al.-T2-22. On page 26, line 7 of your testimony, you describe a conversion factor which assumes that 52.45 bundles can be placed in an OWC.

(a) How do you define an OWC? Does this term refer to a 1042 hamper, u-cart, APC/GPMC, or some other container?

(b) Does "OWC" represent an average of the many types of rolling stock used throughout postal facilities?

(c) Please explain how the 52.45 bundle per OWC figure was developed.

(d) On page 26, lines 8-9, you state, "[i]n reality, of course, the number of bundles in a full container depends on the number of pieces per bundle and on the size of those pieces." Please confirm that it would be possible to develop such container conversion factors for ranges of bundle sizes and/or mail piece sizes. If not confirmed, please explain.

(e) Please confirm that it would also be possible to develop these conversion factors for the many types of rolling stock relied upon to process mail at postal facilities? If not confirmed, please explain.

(f) In the type of cost study which you have conducted, where do you think it is safe to draw the line when it comes to the de-averaging of container conversion inputs, without jeopardizing the results of that study? Is it safe to just use an average number of bundles per average container, or should container conversion factors be developed for all possible bundle sizes/shapes and postal rolling stock combinations?

(g) Given that container conversion factors could not be obtained directly from normal postal data collection systems, presumably special studies would have to be conducted periodically to collect this information. Please describe how you propose these data be collected, including the sample sizes involved and the frequency with which these figures should be updated.

USPS/TW et al.-T2-22.

a-b. I simply adopted the term OWC from the LR-I-332 spreadsheets. There does not appear to be an explicit definition of the term in the documentation I have seen on LR-I-332. One theory is that it means 'Other Wheeled Container.' In my model, however, it refers to large rolling containers used to carry sacks, bundles or flats trays in postal facilities and on postal trucks. Inasmuch as the number of sacks per OWC is assumed to be equal to the number of sacks per IHC (in-house container) as estimated in LR-H-111, Appendix F, and that estimate also is employed to derive the 52.45 bundles per OWC, you might say that an OWC is the same as an IHC.



c. The 52.45 figure is derived as the number of sacks per OWC (26.5) multiplied by the number of pieces per sack and divided by the number of pieces per bundle, where the last two numbers are averages for regular rate and nonprofit Periodicals, as determined by the mail characteristics study described in LR-I-87.

d. Yes, I believe that it would be possible.

e. Obviously, if one can establish the size (cubic feet) of each container type, one should be able to estimate the number of bundles of a given size that such a container would hold. In order for such information to be useful one might also need an inventory of the types of containers that in fact are being used as receptacles for bundles in mechanized and manual bundle sorting operations. Some allowance would also need to be made for the fact that some containers at such operations tend to receive far more bundles than others.

f. I think that depends on what you intend to do with the information. For the type of analysis that is described in my testimony and development of the type of rate structure that is proposed by Mr. Mitchell, one average for outside county Periodicals would probably be sufficient. Of course, the Postal Service may have other uses of the data in mind. With regard to disaggregating by bundle size, it seems to me that that would be a rather trivial exercise once you know the number of cubic feet that a type of container can hold. The Postal Service and its individual facilities may have interests in disaggregating such data by container type in order to analyze the effectiveness of using alternative container types in different situations.

g. I am not prepared to propose a detailed plan for the type of data collection indicated. The first step in developing such a plan would be to determine precisely what kind of data one expects to obtain and what the data are going to be used for. The Postal Service appears, for example, to have a strong interest in developing data that are disaggregated by bundle size.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-23. Due to the space requirements associated with bundle sorting operations (including the SPBS), the 035 prep operation, and flats sorting equipment, some postal facilities have relocated those operations to annexes. How are postal annexes incorporated into your analysis?

USPS/TW et al.-T2-23. There is no explicit accounting for the use of annexes in my analysis.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-24. On page 28, lines 23-25 of your testimony, you state, "[g]enerally, mailings entered at SCF's or BMC's are unloaded onto the platform by USPS employees, adding to their costs. At delivery units (AO's, stations and branches) unloading is generally done by the mailers." What is your basis for these statements? Did you attempt to conduct a survey or analysis in order to determine the percentage of mailings that are unloaded by postal employees by facility type? If so, please provide the results of that analysis.

USPS/TW et al.-T2-24. With regard to unloading at delivery units, please refer to:

- (1) pages 56-58 of my direct testimony, TW-T-1, in Docket No. R2000-1;
- (2) LR-I-296 titled "Drop Shipment Procedures For Destination Entry; and
- (3) Acknowledgement by witness Mayes (USPS-T-23 at page 7) in Docket No. R2001-1 of the correctness of my observations in the previous rate case.

I did not conduct a survey of unloading methods at SCF's and BMC's. My impression is, however, that mailers generally do not do the unloading onto the platform at such facilities. The Postal Service's present models to determine DSCF, DADC and DBMC entry discounts do not appear to leave room for the possibility that unloading at those facilities might be done by mailers. Plant loads, for obvious reasons, are not unloaded by mailers. There may be exceptions in the case of small mailings entered at the originating office, especially if a mailing consists of just a few sacks.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-25. On page 29, lines 2-3 of your testimony, you state, "[b]ut this is based on BMC data, BMC's being large facilities with large distances between inbound and outbound docks." Are you aware that many BMC's have had expansions in recent years, in some cases to specifically accommodate cross docking operations? If so, please explain how these changes have been incorporated into your analysis.

USPS/TW et al.-T2-25. Yes, I am aware that many BMC's have made efforts to expand in order to accommodate cross-docking operations. Please note that the paragraph in my testimony from which you quote explains why, in choosing which Postal Service estimate of pallet cross-docking productivity to use for cross docking at SCF/ADC's I chose the higher estimate that was based on measurements taken at an SCF/ADC (namely the Buffalo SCF) over the lower estimate that originated in measurements at a BMC.

For obvious reasons, it was not possible for me to obtain an up-to-date estimate of BMC pallet cross-docking productivity reflecting all recent platform modifications. If the Postal Service has such updated information, including it would clearly make the model I have presented more accurate.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
UNITED STATES POSTAL SERVICE**

USPS/TW et al.-T2-26. On page 30, lines 21-25 of your testimony, you state, "[f]or this reason, I may have underestimated the cost of operations such as shaking out a sack. .... On the other hand, I may have overestimated the costs of some pallet operations at non-BMC facilities, particularly cross docking." Please confirm that the impact of the underestimation and overestimation examples that you describe do not cancel themselves out in terms of how they affect witness Mitchell's proposed rate schedule (TW et al.-T-1, page 43), as the former example affects the sack rate cells, while the latter affects the pallet rate cells. If not confirmed, please explain.

USPS/TW et al.-T2-26. Confirmed.

1 CHAIRMAN OMAS: Before we proceed, I would  
2 like to recognize that counsel for APWU has entered.  
3 Would he like to introduce himself?

4 MR. TABBITA: I'm Phillip Tabbita (off  
5 mike).

6 CHAIRMAN OMAS: Can you come to a mike so we  
7 can get that?

8 MR. TABBITA: Phillip Tabbita for the  
9 American Postal Workers Union.

10 CHAIRMAN OMAS: Thank you, Mr. Tabbita.  
11 Would you give that to the reporter?

12 I saw Mr. Straus stand up. Mr. Straus?

13 MR. STRAUS: I'm trying to keep these  
14 designations straight and not be repetitive, but I  
15 have an additional designation for the witness as  
16 well.

17 CHAIRMAN OMAS: Without objection.

18 MR. STRAUS: Mr. Stralberg, I'm handing you  
19 a copy of your response to NNA Question No. 1.

20 THE WITNESS: Okay.

21 MR. STRAUS: If you were asked this question  
22 today, would your answer be the same?

23 THE WITNESS: Yes.

24 MR. STRAUS: Mr. Chairman, I would like to  
25 hand two copies of this interrogatory and response to

1 the reporter for admission into evidence and  
2 transcription into the record.

3 CHAIRMAN OMAS: Yes, sir. Without  
4 objection, so ordered.

5 (The document, previously  
6 identified as Exhibit No. TW  
7 et al.-T-2-1, was received in  
8 evidence.)

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE  
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-1. Would you expect that preparing sacks with as few as one piece would be more costly to mailers than preparing a sack with 40 pieces.

NNA/TW et al.-T2-1. For a given number of pieces, I would expect it to cost more to put them in many sacks than in just a few sacks.



1 CHAIRMAN OMAS: Is there any additional  
2 cross-examination, oral, written otherwise?

3 (No response.)

4 CHAIRMAN OMAS: There being none, this  
5 brings us to oral cross-examination. Two parties have  
6 requested oral cross-examination: American Business  
7 Media, Mr. Strauss; and McGraw Hill Companies, Mr.  
8 Bergin. Is there any other party that wants to cross-  
9 examine Witness Stralberg?

10 MR. RUBIN: The Postal Service may have  
11 follow-up cross-examination. That will be it.

12 CHAIRMAN OMAS: All right. I note in  
13 passing that both American Business Media and McGraw  
14 Hill Companies combined their notices of intent to  
15 cross-examine within their designation of written  
16 cross-examination. In order to facilitate  
17 recordkeeping through our electronic filing system,  
18 the Commission asks that each individual procedural  
19 action or request be contained in a separate document.  
20 This allows for accurate coding of documents so they  
21 can be easily identified and assessed through the  
22 search capabilities of our Web site. I ask all  
23 participants to attempt to comply with that practice  
24 during the remainder of this case.

25 Is there any follow-up cross-examination?

1 Mr. Straus?

2 MR. STRAUS: Mr. Chairman, the fact that  
3 many of the responses submitted yesterday have not  
4 been designated makes it a little bit cumbersome to  
5 conduct cross-examination on them. I think the best  
6 course would be to refrain from cross-examining on  
7 that material to see whether it's introduced or not  
8 and to see whether there is any other party. I sort  
9 of am loathe to cross-examine a witness on responses  
10 to another party's interrogatories for fear of  
11 treading on their plan.

12 I had hoped to conduct my cross-examination  
13 primarily on Mr. Stralberg's responses to American  
14 Business Media's interrogatories and then allow other  
15 counsel to cross-examine on their interrogatories and  
16 then follow up. I, apparently, won't have that  
17 opportunity today, so if Mr. Stralberg is recalled,  
18 then I guess that would be the appropriate time.

19 Mr. Stralberg, with that totally unnecessary  
20 description, I'm going to be questioning you almost  
21 exclusively on your answers to American Business Media  
22 interrogatories.

23 THE WITNESS: Okay.

24 //

25 //

1 CROSS-EXAMINATION

2 BY MR. STRAUS:

3 Q Directing your attention first to your  
4 response redirected from Witness Mitchell to ABM's  
5 Question No. 3 to Mr. Mitchell. It would be ABM TW et  
6 al.-T1-3.

7 A I have it.

8 Q On the third page of that response, you  
9 explain that three Time Warner publications,  
10 Parenting, Health, and Baby Talk, are co-mailed with  
11 magazines not published by Time, Inc.

12 A Yes. That's my understanding.

13 Q Do you know why those three are co-mailed?

14 A I really don't.

15 Q In the next paragraph, you do on to explain  
16 that supplemental mailings tend to have a higher use  
17 of sacks than main mailings. Why aren't those  
18 supplemental mailings co-mailed or co-palletized?

19 A Well, it may be they should be. It appears  
20 to me, from what I've heard, that if, for example,  
21 these proposed rates were to take effect, there would  
22 be a tendency for printers and mailers to try and co-  
23 mail more supplemental mailings.

24 Q I understand that's your position about  
25 these rates, but that wasn't my question. My question

1 is, under today's rates, why aren't they co-mailed or  
2 co-palletized?

3 A Well, I'm not really a specialist on that.  
4 I can't really speak for the printers and the mailers  
5 and the decisions they make.

6 Q These are Time, Inc., publications.

7 A These are Time, Inc., publications, yes.

8 Q But you can't explain why certain Time,  
9 Inc., publications are co-mailed and others are not.

10 A I cannot.

11 Q Please look at the part of your answer that  
12 runs from the bottom of page 3 to the top of page 4.  
13 You say that four publications of Fairchild are co-  
14 mailed. Are these co-mailed exclusively with each  
15 other, or are there other publications in the pool?

16 A My understanding is they are co-mailed  
17 exclusively with each other.

18 Q So it would be the co-mailing of a single  
19 publisher's periodical.

20 A Exactly.

21 Q Would you agree that with a co-mailing  
22 consisting of the publications of a single publisher  
23 that the scheduling problems that might occur if you  
24 have multiple publishers would be eliminated?

25 A I assume so.

1           Q     In the next part of your answer, in the  
2 middle of page 4, where you're addressing Reader's  
3 Digest, you explain, at the very end of that  
4 paragraph, that you did not analyze two Reiman titles  
5 for which mail-dot-dat files were not available. Why  
6 couldn't you do the analysis without mail-dot-dat  
7 files?

8           A     I would have had to have some other kind of  
9 data. I used the data I got from Reader's Digest.

10          Q     Were the other data that you would have had  
11 to use available to you?

12          A     No.

13          Q     They were not given to you.

14          A     They were not given to me.

15          Q     Did you ask for it?

16          A     Through the cooperation of Time, Inc., we  
17 asked Reader's Digest for data on all of their  
18 publications. This is what they came up with.

19          Q     Would it have been very difficult to  
20 calculate the postage at the proposed rates without  
21 mailed-dot-dat files?

22          A     Yes. In fact, it would.

23          Q     Would it be impossible?

24          A     You would need to -- that information in  
25 some other format.

1           Q     But you would need information that  
2 typically isn't available, wouldn't you?

3           A     It typically is not produced. You basically  
4 need a count of the sacks and the pallets by entry  
5 point and by presort level. Certain information has  
6 to be available to the mailers, to those who prepare  
7 the mail, but it's not normally generated or reported  
8 by the software systems at this time.

9           Q     I would like you now to turn to Table TW-2.

10          A     Okay.

11          Q     Two of the publications listed there, the  
12 first and third, are BMX and Ride BMX.

13          A     Yes.

14          Q     It must be a real niche market.

15          A     It's a niche market, yes.

16          Q     I notice that those two publications have  
17 very little palletization, four percent in the case of  
18 BMX and 14 and a half percent for Ride BMX.

19          A     Yes.

20          Q     I also notice that their postage per piece  
21 is rather high, 38 cents for BMX and 42 cents for Ride  
22 BMX. Do you see that?

23          A     Yes. I agree with that.

24          Q     Why aren't these publications palletized?

25          A     They are very small publications.

1 Q How small?

2 A I don't remember. I think I provided that  
3 information in another interrogatory. I think BMX is  
4 about 14,000 pieces.

5 Q Would you accept, subject to check, that BMX  
6 is about 17,000, --

7 A 17,000. I will accept that.

8 Q -- and Ride BMX about 18,000?

9 A Yes.

10 Q So these are basically too small to be  
11 palletized.

12 A Unless they were to be co-palletized or co-  
13 mailed. It's not happening at this time.

14 Q But Time, Inc., co-palletizes or co-mails  
15 other publications, doesn't it?

16 A It does some, yes.

17 Q And why doesn't it co-mail or co-palletize  
18 these to save money?

19 A Well, I guess, at this time, there has been  
20 no reason to. Co-mailing and co-palletizing are  
21 fairly new concepts anyway. Maybe they should be, but  
22 they are not doing it, and I can't really tell you  
23 why.

24 Q But they find it profitable to co-mail or  
25 co-palletize other periodicals, don't they, the same

1 company, Time, Inc.?

2 A They are co-mailing and co-palletizing some.  
3 It depends on which printer they are at. I believe,  
4 actually, the printer for these publications does not  
5 offer co-mailing at this time.

6 Q And what printer is that?

7 A I asked somebody this morning. I think it's  
8 Brown Printing.

9 Q Is Brown Printing a small printer or a large  
10 printer?

11 A I understand it's not small.

12 Q Is it not medium?

13 A I understand it's about medium.

14 Q Let's take a look at Motorcross on TW-2.  
15 That shows a rate increase of about 12 or 13  
16 percent --

17 A Yes.

18 Q -- to the proposed rates, yet 71 percent of  
19 that is palletized. Do you have an explanation for  
20 why this periodical that's 70 percent palletized would  
21 suffer -- I take that word back -- I don't want to  
22 load it -- would face a 12 or so percent rate  
23 increase?

24 A Well, I think it is palletized and entered  
25 at origin.



1 Q Why isn't it drop shipped?

2 A I don't know.

3 Q Wouldn't it save money if it were drop  
4 shipped?

5 A It would also cost money to drop ship them.

6 Q I understand, but wouldn't there be a net  
7 saving for drop shipping?

8 A Not under the current rates necessarily. I  
9 don't know what decisions went into drop shipping or  
10 not drop shipping. None of these tiles had drop  
11 shipped.

12 Q Aren't there many publications today that  
13 are drop shipped and save money by drop shipping under  
14 today's rates?

15 A There are, yes. It depends on the percent  
16 editorial content, for one thing. If it's a high  
17 editorial content, drop shipping is not very  
18 profitable at this time.

19 Q Well, the editorial content is 69 percent.  
20 If we look at Money magazine on TW-3, the editorial  
21 content is about 56 percent.

22 A Yes.

23 Q Is Money magazine drop shipped?

24 A I understand it now is, yes.

25 Q You show only 5 percent to Zones 3 through

1 8.

2 A Yes.

3 Q Pretty clearly drop shipped. Right?

4 A As I understand it, certain printers in  
5 certain locations offer drop shipping in a pool. I  
6 think some magazines have entered those pools very  
7 recently. It's an ongoing process.

8 Q In fact, isn't it true that none of the  
9 Transworld publications shown on TW-2 are drop  
10 shipped, --

11 A None of them are.

12 Q -- but all of the Time, Inc., monthly  
13 publications on TW-3 are drop shipped?

14 A I'm not sure if all of them are drop  
15 shipped.

16 Q Can you explain why the highest number  
17 there, for Zones 3 through 8, is only 12 and a half  
18 percent if it's not drop shipped?

19 A Okay. You're referring to -- there are  
20 several pages -- you're referring to Table --

21 Q -- Table TW-3 only, yes.

22 A Well, it looks, from those percentages, like  
23 they are all drop shipped.

24 Q Just backing up a bit, you said that maybe  
25 Motorcross isn't drop shipped because it's high

1 editorial, 69 percent, but if we go over to  
2 Skateboarding on TW-2, that's 45 percent editorial,  
3 and that's not drop shipped.

4 A None of these publications are drop shipped.  
5 I'm not able to provide you with the decision-making  
6 process.

7 Q But your speculation that the high editorial  
8 for Motorcross --

9 A That certainly would discourage drop  
10 shipping, yes.

11 Q But that same speculation wouldn't apply to  
12 Skateboarding, would it?

13 A No. It probably has more to do with where  
14 they are being printed.

15 Q Now, let's turn to TW-4.

16 A At a table.

17 Q Yes. Are these periodicals drop shipped?

18 A To a considerable extent, yes.

19 Q And the editorial percentage rate is as high  
20 as 82.79 percent, doesn't it?

21 A In the case of SI for Kids, yes.

22 Q And Skiing is 63 percent?

23 A Uh-huh. Yes.

24 Q And would you expect that Time, Inc., would  
25 drop ship a monthly publication if it didn't save

1 money as a result?

2 A No, I don't think so. There may be other  
3 reasons. They may decide it's better service, but  
4 generally they evaluate each case.

5 Q These periodicals are not especially time  
6 value, are they?

7 A I don't think so.

8 Q And so the only reason to drop ship would be  
9 to save postage --

10 A Would be to save money, yes.

11 Q -- so that the postage saving was greater  
12 than the transportation cost.

13 A Yes, yes.

14 Q Please take a look at Table TW-6, which is  
15 the summary data for supplemental mailings of the  
16 Time, Inc., monthly publications.

17 A Okay.

18 Q Focus in on the postage cents per piece for  
19 Money magazine.

20 A Okay. Current rates?

21 Q From 38.19 cents under the current rates to  
22 54.61 cents under the proposed rates. That's a very  
23 large increase, and even the 38 cents is a significant  
24 number in cents per piece. Can you tell me why this  
25 periodical is not palletized on its supplemental

1 mailing?

2 A I think this is a very low-volume mailing.

3 Q Would you accept that it's 17,000 pieces?

4 A I will accept that, yes.

5 Q Do you know where it's printed?

6 A I'm not sure. I think it's printed in  
7 Clarksville, Tennessee.

8 Q By?

9 A By Quebecor.

10 Q Do they do any co-palletizing?

11 A They do. On the main mailings, they co-  
12 palletize. They don't do any co-palletizing, I don't  
13 think, not to my knowledge. They do a lot of drop  
14 shipping.

15 Q Do they do co-mailing?

16 A I don't know. I would assume they do, but I  
17 don't know that for a fact.

18 Q Okay. What confuses me here is -- if you  
19 compare the volumes with the percentage palletized,  
20 there seems to be a relationship. If we just go  
21 through it, Cooking Light is 403,000, and it has 86  
22 percent --

23 A Yes.

24 Q -- palletized; Southern Accents, 79,000, 13  
25 percent; Coastal Living back up to 91,000, 41 percent

1     palletized; In Style, 106,000, 61 percent palletized;  
2     then we have Money at 17,000 with nothing; Real  
3     Simple, 10,000, with only less than 2 percent  
4     palletized; SI for Kids, 17,000, no palletization;  
5     Southern Living back up to 82,000, 60 percent  
6     palletized; Teen People, 19,000, zero percent  
7     palletized.

8                 Are these printed at different plants, or  
9     are these all printed at the same plant?

10                A     I think they are at different plants.

11                Q     So is the difference between those that are  
12     palletized and not palletized volume related or  
13     printing-plant related?

14                A     Okay. Let me put it this way. I do not  
15     know why decisions are made the way they are made. In  
16     the case of Cooking Light, which has a very high  
17     volume on the supplemental mailing, I posed that  
18     question to Time, Inc., why is it not drop shipped,  
19     that kind of volume, and my understanding is, now that  
20     they are aware of it, they will probably drop ship it.

21                Q     But my question was palletizing, not drop  
22     shipping.

23                A     Okay. I cannot explain. My understanding  
24     is that many of these mailings are put in sacks  
25     because that's the way they have always been doing it.

1           Q     Let's take a look at Money again, where the  
2     current postage is 38.19 cents per piece for the  
3     17,000 in the supplemental mailing.

4           A     Yes.

5           Q     Would you confirm that the main mailing  
6     cents per copy for Money is 23 cents?

7           A     Yes.

8           Q     So there is a difference of about 15 cents  
9     per copy.

10          A     It's a big difference.

11          Q     Does it cost more than 15 cents to work  
12     share the supplemental mailing of Money so that it  
13     looks a lot like the main file?

14          A     I would have to look at those, the main file  
15     and the supplemental file, in more detail. There is  
16     obviously a big difference in presortation, in  
17     palletization, and in drop shipping.

18          Q     Co-mailing, in theory, at least according to  
19     some of the witnesses for the Complainants, co-mailing  
20     can make the supplemental mailings look like the main  
21     file, can't they?

22          A     You'll have to ask Mr. Schick about that.

23          Q     Please look at table RD-1.

24          A     Okay. I'm looking at it.

25          Q     The "NA" at the bottom of the chart says you

1       can't give me a cents per copy at the proposed rates  
2       because the title is co-mailed. Do you see that?

3           A       I see that, yes.

4           Q       But if I go to the percentage palletized,  
5       it's 23 percent. Can you explain why, if this is both  
6       co-mailed, as it says in the footnote, and co-  
7       palletized, as it says on about the fifth line of the  
8       chart, why, with both co-mailing and co-palletizing,  
9       only 23 percent of the copies are palletized?

10          A       I think you asked me that in another  
11       interrogatory, actually, which I don't remember the  
12       number. The answer we got back from Reader's Digest  
13       is that different issues are treated differently.  
14       Some are co-mailed; some are not. What they have  
15       given us are annual figures, and I really cannot  
16       provide you more information about what is happening  
17       to these titles.

18          Q       This title comes out seven times a year with  
19       a circulation of about 300,000, and sometimes they co-  
20       mail it, and sometimes they don't.

21          A       That's my understanding, yes.

22          Q       I think you'll be relieved to know we're  
23       done with your charts.

24                   If you would look at your response to ABM  
25       Question No. 2, and I'm focusing particularly on your



1       indented No. 2, where you say that many pre-bar coded  
2       flats are sorted manually.

3           A       Yes.

4           Q       Should the bar code discount be lower if the  
5       Postal Service doesn't take advantage of the bar  
6       coding?

7           A       I don't think it should be lower because of  
8       the Postal Service doesn't take advantage of it. The  
9       Postal Service should take advantage of it to the  
10      maximum extent.

11          Q       So the discount should be based upon the  
12      theoretical saving to the Postal Service.

13          A       No. The discount should be based on what,  
14      in fact, is happening. There are many destinations to  
15      very small zip codes, for example, where the Postal  
16      Service will not do processing on the machines, and so  
17      since the flats never see a machine, they will never  
18      take advantage of the bar coding. In order to  
19      distinguish that, you will have to have a different  
20      rate to different locations in a country, or different  
21      zip codes would all have to have their own rates, and  
22      that would not be practical.

23          Q       Let's back up. Is the bar code discount  
24      today based upon the costs that are actually avoided  
25      based upon the number of bar-coded pieces that are

1 actually handled, or is it based on the theoretical  
2 saving, assuming that all bar-coded --

3 A It is based on certain assumptions about how  
4 the Postal Service will sort the flats in different  
5 locations. In other words, there is a certain  
6 percentage of locations where the flat-sorting machine  
7 is available and other places where it's not. It may  
8 be, however, that a facility, for various reasons,  
9 decides to sort some flats manually, even if they  
10 could put it on a machine.

11 Q And if they do that, the mailer should still  
12 get the benefit of the bar code discount, shouldn't  
13 it?

14 A Well, it's impossible to keep track of what  
15 every single facility does.

16 Q But, in theory, if it could be kept track  
17 of, would you say that that mailer should pay an extra  
18 couple of cents for that piece, or should that --

19 A No. It should be averaged out, obviously.

20 Q Please look at the last paragraph of your  
21 response to that Question No. 2.

22 A Okay.

23 Q When you assert that to speculate that  
24 increased drop shipping and palletization has caused  
25 the increase in periodicals cost, who are you saying

1 speculated that?

2 A Well, I was thinking of you, actually, or  
3 whoever wrote the question.

4 Q We suggested that the theoretical cost  
5 savings weren't captured, that costs went up despite  
6 the work sharing, not that the work sharing caused the  
7 work sharing increase. It's a post hoc fallacy to  
8 suggest that work sharing caused it.

9 A Well, then we agree, then. The increase in  
10 postal costs has all kinds of reasons, and it's not  
11 because of work sharing; it's in spite of work  
12 sharing.

13 Q So despite the fact that mailers have done  
14 more palletizing, more drop shipping, more bar coding,  
15 and more sorting, the cost savings that should have  
16 been captured --

17 A And also in spite of the fact that the  
18 Postal Service has much better technology than they  
19 had many years ago.

20 Q I'm sorry. Please look at your response to  
21 Question 4. You say at the end that some facilities  
22 post lists of hot pubs. Have you ever seen such lists  
23 posted?

24 A Yes. I think you and I saw one together in  
25 Charlotte, North Carolina.

1 Q Do you recall the titles that were on the  
2 list?

3 A I, unfortunately, didn't bring a copy with  
4 me. I got the recent version of that list. It has  
5 large and small publications.

6 Q It had about seven, six or seven maybe?

7 A It's more like 15 or 16, I think. I counted  
8 at least four ABM publications on that list.

9 Q Not the one I saw.

10 A Computer World, Network News. I don't  
11 remember the others.

12 Q Carolina Blue.

13 A No, no. They were national ABM  
14 publications.

15 Q I'm not suggesting Carolina Blue is an ABM  
16 publication. But there are a lot more weeklies and  
17 dailies than were on that list, aren't there?

18 A There were some local dailies. There were  
19 some weeklies. There were some Time, Inc., weeklies.

20 Q Isn't it true that Time, Sports Illustrated,  
21 People, and Entertainment Week were all on the list?

22 A I believe they were all on the list, yes.

23 Q So if there were 15, four of the 15 were  
24 Time, Inc., publications.

25 A I would have to double-check the count of

1       15. I think it may be more.

2           Q     If there were 15, that left 11 non-Time,  
3     Inc., publications, a couple of which were local. Do  
4     you have any idea how many weekly and daily  
5     publications there are in the country?

6           A     I'm going to try and find the list, --

7           Q     Okay.

8           A     -- if I can find it in a hurry.

9           Q     This is the list that you've recently seen  
10    or the one we saw together?

11          A     No. The one that we saw in '98; I don't  
12    know where that is. I don't know how to find that.

13          Q     I don't mind if, on redirect, you produce  
14    the other list I was talking about, then, the old  
15    list.

16          A     And if I can't find it now, I'm willing to  
17    provide it later.

18          Q     That would be fine.

19          A     I'm sorry. I don't see it at this minute,  
20    so I'll have to provide that later.

21          Q     You would agree, wouldn't you, that there  
22    are hundreds of weekly and daily publications in the  
23    country?

24          A     There are lots of them.

25          Q     Maybe thousands?

1           A     Maybe thousands.

2           Q     Do you know how an individual postal  
3     facility determines what four or 10 or 15 or 20 to put  
4     on its posted hot pubs list?

5           A     I don't really know all of the decision  
6     processes they go through, but some of them may be  
7     because people call and complain that they haven't  
8     gotten their paper on time.

9           Q     I'm now going to ask you a couple of  
10    questions about your Response No. 5.

11          A     Okay.

12          Q     Here, you're explaining, on the second page,  
13    at least, why treatment as a hot pub doesn't  
14    necessarily mean that there is any greater cost, and  
15    you say that mailers who drop ship are typically  
16    assigned windows for entering their mail that are  
17    designed to avoid contributing to peak loads.

18          A     Uh-huh.

19          Q     That would be true only at the entry  
20    facility, wouldn't it?

21          A     Wherever that publication is entered.

22          Q     So if a facility is entered at an SCF, the  
23    attempt, at least, would be to make sure that they  
24    arrive at an appropriate time.

25          A     Yeah, usually before 5 p.m. is a typical

1 time.

2 Q And then --

3 A From there, they go into the Postal  
4 Service's transportation system, which is designed  
5 basically with critical dispatchers in mind. If  
6 something arrives after a certain time, there is not  
7 guarantee that they will be processed that day. Hot  
8 pubs are not.

9 Q But the Postal Service still attempts to  
10 process them, even if they don't make their critical  
11 entry, doesn't it?

12 A My understanding is they do attempt, yes.

13 Q Are you familiar with any what you would  
14 call extraordinary efforts?

15 A Well, when we went on this periodicals  
16 review team tour that we both did, we saw some  
17 examples of inappropriate efforts at meeting service  
18 standards for mail that really should have been  
19 delayed, and I think our report strongly encouraged  
20 that such practices be discontinued. I don't know if  
21 they have been discontinued, but they should be.

22 Q In the next-to-last paragraph on the second  
23 page of that answer, you say that merely having an  
24 employee process the weekly periodical ahead of the  
25 monthly doesn't add costs.

1           A     The costs are incurred through staffing  
2 decisions.

3           Q     I'm not challenging your answer. I'm just  
4 suggesting --

5           A     That's what I'm saying, yes.

6           Q     Does it add value to the mailer to have his  
7 periodical put ahead of a monthly?

8           A     Obviously.

9           Q     I'm now going to refer back to your  
10 testimony at page 6, footnote 4.

11          A     Okay.

12          Q     There, you suggest that there may be good  
13 reason to mail one or two pieces in a sack. You don't  
14 think it's very smart, and it's pretty expensive, but  
15 there may be a reason to do it.

16          A     Yeah. Who knows?

17          Q     Could you take a look at the rate schedule  
18 proposed by Mr. Mitchell?

19          A     I'm sorry. I don't have that with me.

20                MR. STRAUS: I only have one copy, and I  
21 borrowed it, so maybe your counsel could lend you a  
22 copy.

23                MR. BURZIO: Counsel doesn't have it either.

24                CHAIRMAN OMAS: Does anyone have a copy of  
25 this that we can supply the witness?



1 MR. STRAUS: I'll give him mine.

2 CHAIRMAN OMAS: Thank you, Mr. Straus.

3 BY MR. STRAUS:

4 Q Let's take a one-piece sack that's origin  
5 entered.

6 A Okay.

7 Q You think that that sack shouldn't be  
8 prohibited but that it should face the appropriate  
9 price signals. Is that right?

10 A That's what I'm proposing. Actually, I'm  
11 not proposing any pricing, but I do have that opinion,  
12 yes.

13 Q Would that sack pay the ADC rate or the  
14 mixed-ADC rate if it only has one piece in it?

15 A I believe it will pay the mixed-ADC rate.  
16 It depends on where it is entered and what the sack  
17 label indicates. If it's indicated as a five-digit  
18 sack, then I think it should pay the five-digit-origin  
19 sack.

20 Q We only have one piece.

21 A We only have one piece.

22 Q So it could be carrier route, for that  
23 matter. Right?

24 A I don't think they allow carrier routes  
25 sacks with one piece in them anymore.

1           Q     Okay.  So under the proposed rate schedule,  
2     what would the sack charge be?

3           A     Well, it depends on where the sack is  
4     entered relative to its destination and the presort  
5     level on the sack.

6           Q     Let's say it's plant loaded.

7           A     I don't think they would plant load one  
8     piece sack.

9           Q     Well, if it's plant loaded with all of the  
10    other sacks and pallets.

11          A     You mean they throw it in there.

12          Q     The Postal Service wouldn't accept it as a  
13    plant load?

14          A     I don't know that for a fact.

15          Q     If it's entered at the --

16          A     But anyway, if it's plant loaded, then it's  
17    usually entered at the origin, at the destination.

18               MR. BURZIO:  Mr. Chairman, reserving the  
19    right to object, this line of cross-examination has to  
20    do with the rate schedule proposed by Mr. Mitchell,  
21    who will be a witness later in this month, and I offer  
22    the observation that this line of cross-examination  
23    more appropriately should be directed to Witness  
24    Mitchell.

25               MR. STRAUS:  I would agree if my goal here

1       were to probe the rate schedule. I'm just trying to  
2       find out from this witness so I can ask him a relevant  
3       question what the sack would actually pay under the  
4       rates.

5               CHAIRMAN OMAS: Mr. Burzio, I'll allow that.

6               THE WITNESS: And I'm answering that it  
7       depends. You have to specify to me where the sack is  
8       entered relative to its --

9               MR. STRAUS: I originally said origin  
10      entered.

11              THE WITNESS: Origin entered.

12              MR. STRAUS: Yes.

13              THE WITNESS: Okay. And the second question  
14      is, what is the presort indicated on the sack? You  
15      also have to tell me before I can give you an answer.  
16      If it's entered as a mixed-ADC sack --

17              BY MR. STRAUS:

18              Q     The concept of mixed ADC with a single piece  
19      is strange. Mixed ADC would mean more than one --

20              A     It's different in terms of how it's treated.  
21      If it's a mixed-ADC sack, that sack would be opened  
22      immediately at the entry facility. The sack itself  
23      would incur very few costs because all they have to do  
24      is to open it and shake out that one piece, which is  
25      not cheap, but it's --

1           Q.    Let's assume that this rate schedule were in  
2           effect, and the mailer were not an idiot, and the  
3           mailer had a single piece in the sack.

4           A     Yes.

5           Q     How would the mailer mark that?

6           A     It depends on his purpose in putting a  
7           single piece in the sack.  If he does that because he  
8           thinks it's going to travel through the system faster  
9           in a sack, which is speculated to be one of the  
10          reasons, then he would label it as a five-digit sack.

11          Q     And then what would the sack charge be?

12          A     The sack charge then would be \$3.30,  
13          according to this.

14          Q     Okay.  And then what would the bundle charge  
15          be?

16          A     That depends on the presort level of the  
17          bundle.

18          Q     It's one piece.

19          A     It's only one piece, so I think it's a five-  
20          digit bundle.

21          Q     And so the bundle charge --

22          A     It would be zero.

23          Q     Assuming it's machinable, and it's going to  
24          Zone 8, what would the piece charge be?

25          A     The piece charge, if it's machinable and

1 it's bar coded, would be 19.4 cents.

2 Q And then what about the pound charge if it's  
3 50 percent editorial, 50 percent advertising, and  
4 going to Zone 8?

5 A From Zone 8.

6 Q Yes.

7 A Okay. Let me see. Zone 8, 49.8 cents minus  
8 10.1 cents for the portion that's editorial.

9 Q Did I give you the weight? It's an eight-  
10 ounce piece. Did I say that?

11 A You're asking me to multiply or what?

12 Q What I want to find out -- the fact I want  
13 so I can ask you the real question is, what would this  
14 one-piece sack pay under the rates you propose?

15 A The pound charge, before the editorial  
16 discount is 49.8 cents. If it's an eight-ounce piece,  
17 it will be exactly half of that. In addition, you  
18 said there was 50 percent editorial?

19 Q Yes.

20 A Okay. So the 50 percent would pay for the  
21 9.8 cents per pound minus 10.1 cents per pound, which  
22 would be 39.7 cents per pound, and the advertising  
23 portion would pay for the 9.8 cents per pound. Was  
24 that clear, or do you want me to explain it again?

25 Q Do you have a total postage figure for this

1 sack?

2 A We're working on pound charges right now,  
3 aren't we?

4 Q Yes.

5 A Okay. And you're asking me to do it in my  
6 head. I'm trying to do it as best as I can.

7 Q Would you like a calculator?

8 A No. I'm giving you all of the means to  
9 calculate this yourself, basically. Again, I'll  
10 repeat the pound charge. It's 49.8 cents for the  
11 advertising portion per pound, 39.7 cents for the  
12 editorial portion. If it is 50 percent editorial,  
13 then you have to take the average of the two, which  
14 comes out to 44.75 cents, I think, and now it is half  
15 a pound, so it's half of that. It's 22.3 cents, is  
16 the pound charge.

17 Q So we have \$3.30 for the sack, 19.4 cents  
18 for the piece, I think you said, and 22 cents for the  
19 pound.

20 A Exactly, yes.

21 Q Okay. So that's a little over \$3.70.

22 A The sack charge dominates in this case.

23 Q Yes. Now, if that mailer decided, "Well,  
24 why should I do that? I can just put a stamp on it  
25 and drop it in the mailbox," how much would he pay for

1 first-class service?

2 A Let's see. You have to add seven additional  
3 ounces, then, at 22 cents. Well, you can calculate  
4 that, but it would be cheaper.

5 Q About \$1.98?

6 A At \$1.98, yes. But it costs the Postal  
7 Service less to handle it as a first-class piece, so  
8 it should cost less.

9 Q Do you know whether or not periodicals  
10 mailers are permitted to mail their periodicals at  
11 first-class rates?

12 A Anything under 11 ounces can be mailed at  
13 first-class rates.

14 Q Have you ever seen postal facilities at  
15 which periodicals with AFSM-100-approved poly are  
16 nevertheless not sorted on the AFSM-100?

17 A Nevertheless not sorted?

18 Q Yes.

19 A I think that happens all the time, depending  
20 on precisely the -- exactly where that piece is going.  
21 For example, if it's going to a five-digit zone that  
22 has very few carrier routes, then normally we'll sort  
23 that manually.

24 Q Maybe I should ask the question better. Are  
25 you aware of any facilities where individual

1 supervisors or managers believe that even AFSM-100-  
2 approved poly jams machines; and, therefore, they run  
3 their AFSM-100-approved flats on the AFSM-1000?

4 A I would hope that doesn't happen anymore.  
5 It's true that the decision on what to put on the  
6 machine is made by the individual operator at the  
7 machine, and so I assume all kinds of decisions are  
8 being made. It's quite possible that that happens.  
9 With the AFSM-100, no, I haven't seen any instances of  
10 that happening.

11 Generally, the facilities that I've visited  
12 since the AFSM-100 became as the main mode of  
13 operating in the facilities is that those machines are  
14 really hungry; they really want as many pieces as  
15 possible, so they will put on pieces that are outside  
16 the official parameters of what is machinable.

17 Q I'm sure you will recall that in Questions  
18 13 and 17 I tried to get you to give your opinion on  
19 the Postal Rate Commission versus the Postal Service  
20 view of volume variability.

21 A Yeah. You tried hard.

22 Q And you tried hard not to give it to me.  
23 I'm going to try one more time.

24 A Okay.

25 Q In Question 17, we asked whether Time



1 Warner, your client, agrees that the PRC assumptions  
2 of volume variability are more accurate than those of  
3 the Postal Service, and you referred back to Answers  
4 13 and 15. In 15, you state that you're not a  
5 spokesperson for Time Warner, although, gosh, I  
6 thought you were in this case, --

7 A I'm not the spokesperson for Time Warner.

8 Q -- and that the Time Warner position on  
9 attribution was expressed in some briefs written  
10 several years ago. In 13, you say you were advised by  
11 Time Warner to use the Commission method. I'll try  
12 again. Do you believe that the volume variability is  
13 as high as the Commission suggested?

14 A I, of course, submitted testimony on that in  
15 the last rate case in my rebuttal testimony, --

16 Q I recall.

17 A -- which I do not necessarily buy the Postal  
18 Service's econometric analysis. I indicated that I  
19 personally believe that volume variability tends to be  
20 less than 100 percent, and I gave some more  
21 operational reasons for that.

22 Again, I will repeat, this is totally  
23 irrelevant for this case. The reason is that the  
24 decisions the Commission has made about what costs are  
25 incurred by periodicals; those are the costs that

1 periodicals may have to face, whether they like it or  
2 not, and so as long as those are the official costs,  
3 then that's what we're dealing with.

4 Q If you had used the Postal Service's volume  
5 variability percentage rather than the 100 percent of  
6 the Postal Rate Commission, --

7 A You asked me that somewhere.

8 Q -- and you cross-referenced an answer which  
9 I don't think was responsive, so I'm asking you again,  
10 what would have been the effect on the rates that were  
11 proposed by Mr. Mitchell?

12 A I actually did not develop a complete set of  
13 costs under that assumption. However; the general  
14 impact would be that the presort differentials would  
15 be somewhat lower --

16 Q And the sack pallet differentials would be  
17 lower.

18 A They would be somewhat lower, mainly in the  
19 piece sorting because the piece operations is where  
20 there is the biggest difference between the Postal  
21 Service and the Commission.

22 Q Under the proposed rates, obviously, some  
23 periodicals, assuming no change in behavior, some  
24 periodicals would have rate increases, and others  
25 would have rate decreases. Isn't it true that if you

1       had used the Postal Service views of volume  
2       variability, that the absolutely value would have been  
3       reduced, in other words, that the increases wouldn't  
4       have been as large, nor would the decreases have been  
5       as large; the rates would have tended more toward the  
6       center?

7           A       It's possible. One would have to calculate  
8       that in each case. I could have given the impression,  
9       of course, that the increases were not going to be as  
10      large by using the Postal Service's methodology, but  
11      that wouldn't really mean anything because, in  
12      reality, it's the Commission's costs that are going to  
13      be the basis of whatever rates are established.

14           Q       In terms of bundle breakage data, you used  
15      the latest you had available, which was based on 1999  
16      data.

17           A       Fall of 1999.

18           Q       And elsewhere, and I don't remember whose  
19      questions, -- there were answers submitted yesterday -  
20      - you addressed bundle breakage.

21           A       The Postal Service, yes. They asked me  
22      about this.

23           Q       The Postal Service has taken steps, hasn't  
24      it, to reduce bundle breakage?

25           A       A variety of steps, yes.

1           Q     Do you know whether they have been  
2     successful?

3           A     I really don't. They are still complaining  
4     about it. I assume they haven't been 100 percent  
5     successful. They have introduced all kinds of  
6     regulations that were supposed to limit the kinds of  
7     bundles you put in sacks and so on, and sack bundles  
8     are the ones that break most of the time. So to what  
9     extent they have been successful, I don't really know.

10          Q     If they have been successful, wouldn't that  
11     tend to reduce the rate burden that the proposed rates  
12     would put on sacks?

13          A     In fact, no. The difference between sacks  
14     and pallets with regard to causing bundle breakage,  
15     the fact is that the way Mitchell used my numbers,  
16     those numbers get averaged out. I provided a  
17     different set of per-piece costs for sack pieces and  
18     palletized pieces. They were not too different. In  
19     other words, bundle breakage is not as big an issue as  
20     many other issues. So Mitchell simply averaged them  
21     out. So, in fact, the rate schedule proposed does not  
22     reflect any difference between sacks and pallets in  
23     that regard. If it did reflect that, then there would  
24     be a bigger difference between sacks and palletized  
25     mailings.

1           Q     Several places in your testimony, you  
2     address sack cost versus pallet cost, and you say the  
3     per-bundle cost of shaking out a sack is greater than  
4     the  
5     per-bundle cost of dumping a pallet. That's your  
6     testimony?

7           A     That's a big difference, yes.

8           Q     And you're talking there about labor costs.

9           A     Labor costs, yes.

10          Q     Now, are there capital costs involved in  
11     shaking out a sack?

12          A     There may be. The capital costs enter, in  
13     my model and other Postal Service's models, as piggy-  
14     back factors at various postal operations. In this  
15     case, there would, in fact, be no difference between  
16     sacks and pallets because both sacks and pallets are  
17     generally opened at the same operation.

18          Q     So the piggy-back cost that reflects capital  
19     cost as opposed to labor costs; your model would be  
20     the same --

21          A     At the --

22          Q     -- can I please finish? --

23          A     Okay. Sorry.

24          Q     -- would be the same on a bundle that's  
25     dumped from a pallet as on a bundle that's shaken from

1 a sack?

2 A Well, it depends on where they are dumped.

3 At the SPBS, the bundle-sorter operation, that is --

4 Q Yes.

5 A -- assigned to one set of piggy-back  
6 factors.

7 Q So?

8 A And if they are sorted manually, if it's  
9 done manually at some point later, then there is  
10 another set of piggy-back factors that apply.

11 Q For the dumping operation itself, a pallet  
12 has some sort of a machine that lifts it up and tips  
13 it. Is that correct?

14 A Yeah. Most of the SPBSs have a pallet  
15 dumper, yes.

16 Q And weren't there problems with those  
17 dumpers that the Postal Service has recently tried to  
18 fix with improved -- I hate to say this -- dumping  
19 techniques?

20 A There is a problem if they dump them too  
21 quickly.

22 Q So under your model, any capital investment  
23 in equipment to dump pallets would be shared  
24 proportionately between bundles on pallets and bundles  
25 on sacks.

1           A     That is true, yes. I think pallets is a  
2     pretty small portion of the cost of bundle sorting,  
3     which is used by both the sack and the pallets.

4           Q     Please look at Answer No. 21.

5                     Okay, I just need a clarification of one  
6     point, and this relates actually part to this answer  
7     and partly to page 29 of your testimony.

8           A     Yes, you are referring to page 29 in the  
9     questions?

10          Q     Yes. You see the see the sentence beginning  
11     at line 8 at page 29.

12          A     You want me to go back to the testimony?

13          Q     Yes, sir.

14          A     Okay.

15          Q     The sentence I would like clarified is the  
16     one that says, "I am using 9.5 pallets/work hour for  
17     cross-docking at SCFs and ADCs as well as for bringing  
18     pallets to the bundle sorting area."

19                     Is that 9.5 pallets per hour for cross-  
20     docking and another -- is there another hour to do  
21     this, to bring them to the sorting area, or is that --

22          A     Well, usually you would --

23          Q     -- separate?

24          A     -- never do both. You would either cross-  
25     dock the pallets or you would bring it to the bundle

1     sorting area. It's either working pallets for that  
2     facility, in which case it goes to the bundle sorting  
3     area where it's going to be broken, or it's a pallet  
4     that can be transferred. So you do one or the other,  
5     you don't do both.

6           Q     All right. So I could put an "or" in that  
7     sentence instead of "as well as"?

8           A     Yes, you could do that.

9           Q     And then elsewhere do you calculate the cost  
10    of bringing the pallets from the dock to the bundle  
11    sorting area if they have been cross-docked?

12          A     If they have been cross-docked?

13          Q     Well, I'm saying cross-docked, if they get  
14    transported to another facility.

15          A     Well, that's another step, yes.

16          Q     Right, and then they have to move from the  
17    docks to the --

18          A     Yeah, they have to move from the dock. They  
19    have to be unloaded. That's one operation.

20          Q     But they have to be moved.

21          A     They have to be moved out of the truck and  
22    onto the platform. That's unloading.

23          Q     But then they have to be moved from the  
24    platform to the place where they actually do the  
25    unloading?



1           A     Say that again.

2           Q     They don't unload the pallets on the  
3 platform, do they?

4           A     Well, the truck pulls up to the platform.

5           Q     Right.

6           A     They unload the pallets from the truck onto  
7 the platform.

8           Q     Yes.

9           A     And depending on circumstances, the pallet  
10 may be taken immediately to some other location.  
11 Either the truck is going to be dispatched to, or  
12 inside the building where it's going to be broken, or  
13 they may leave the pallets on the platform for the  
14 time being.

15          Q     But the task of moving the pallets from the  
16 platform into the building to the location where it  
17 would be either dumped or manually --

18          A     Yes.

19          Q     -- emptied, that's a separate --

20          A     It's a separate step.

21          Q     -- step? That it's separately costed in  
22 your model?

23          A     Exactly.

24          Q     Please look at your answer to No. 26.

25          A     Okay.

1           Q     You say that the bundles that are sorted at  
2     a DDU are typically carrier route bundles.  Would  
3     there also be five-digit bundles sorted?

4           A     There may be some five-digit bundles, yes.

5           Q     And how are they processed at the DDU?

6           A     Most of the time they would just be sorted  
7     at the DDU.

8           Q     Manually?

9           A     Manually, yes.

10          Q     Are mailers permitted to enter five-digit  
11     bundles at a DDU?

12          A     There is a certain percentage, which I don't  
13     remember, they can have a few bundles on top of a --  
14     generally, they segregate carrier route bundles and  
15     five-digit bundles, but there may be a few five-digit  
16     bundles if everything else is carrier route sorted.

17          Q     Are mailers permitted -- you are saying that  
18     the rules do not allow entry of say a pallet with all  
19     five-digit bundles?

20          A     I am not positive about the rules, but there  
21     is a certain percentage that they will accept of five-  
22     digit pallets.

23                     When I look at the characteristics of five-  
24     digit bundles in the mail it's basically all -- they  
25     are almost all carrier routes on those pallets.

1 Q I lost that sentence.

2 A No, in practice, the five-digit pallets that  
3 comes to a DDU is almost all carrier route bundles,  
4 except there may be a few five-digit bundles on top of  
5 it. Because if you have enough volume to sort to  
6 carrier route and put it on the five-digit pallets,  
7 there won't be much volume left for five-digit  
8 bundles.

9 Q But what about a pallet that's mostly five-  
10 digit bundles?

11 A That will be a different kind of pallets,  
12 which would be all five-digit bundles --

13 Q And where --

14 A -- and that would generally not be cross-  
15 docked to the DDU. It would be taken to the AFSM-100  
16 at the SCF.

17 Q But let's go back. You don't recall  
18 specifically whether a mailer is permitted to enter  
19 that pallet at a DDU?

20 A I don't think he is even allowed to do that,  
21 no. It wouldn't make any sense for him to do that.

22 Q Well, if the rate is lower, it would make  
23 some sense, wouldn't it?

24 A Yeah.

25 Q Would you expect that if rates such as those

1 proposed here were placed into effect that there would  
2 be more DDU entry than there is today?

3 A There would be some, I think. I don't know  
4 how much more. I don't know, frankly, whether the  
5 incentives for DDU entry in the proposed rates would  
6 be sufficient to entice a large number of mailers to  
7 do that or not. It would be more at SCF entry, I  
8 think.

9 Q But there would be more pallets prepared,  
10 wouldn't there, that would be acceptable as DDU entry?

11 A They also have to decide if it's pallets.

12 Q Yes, with more -- you are projecting, aren't  
13 you, that there would be a good more co-mailing and  
14 co-palleting that would --

15 A I am making no projections about that.

16 Q All right.

17 A Since we are charging for each pallets, or  
18 we are proposing to charge for each pallet, there  
19 would be a disincentive to create too many pallets.  
20 Most mailers to make up five-digit pallets would have  
21 to make many small pallets. They would have to make  
22 one for every DDU, which might be too expensive.

23 Q But if there were a lot of co-mailing, that  
24 would be come less of a problem, wouldn't it?

25 A That's possible, even so I think there would

1 be a limit to how many five-digit pallets people would  
2 generate.

3 Q If the Postal Service decided that one of  
4 its DDUs needs to be modified to accept pallets  
5 because it does not now, but that there are mailers  
6 who wish to drop pallets there, and went ahead and  
7 spent the money to construct a loading dock and  
8 whatever else was necessary, would that cost work its  
9 way into your model?

10 A Would that cost work its way into my model?  
11 I don't think so.

12 My model reflects what is -- it reflects  
13 basically a test year, or three. The Postal Service  
14 has a continuing program of updating its facilities.  
15 There would be a question of how those costs are going  
16 to be attributed. Modernizing a DDU would benefit all  
17 the mail, not just the pallets.

18 Q Well, if the only modernization were to make  
19 it accessible to pallets, then --

20 A I don't think that's possible. That means  
21 you would also make it accessible to everything that  
22 goes on wheels. If it's not accessible to pallets,  
23 that means that you can't park your truck at the  
24 platform and unload things, so that would be very  
25 inefficient.

1           Q     Right, you can push your wheeled cart up  
2     some ramp that --

3           A     You could --

4           Q     -- can't pull a pallet up?

5           A     Yeah, right. That kind of modification  
6     benefits all the mail, not just pallets. It will  
7     benefit sacks as well.

8           Q     Please look at your response to ABM Question  
9     31.

10          A     Okay.

11          Q     You state there that only after completing  
12     the analysis necessary to respond to our Question 3  
13     did you know how the proposed rates would affect each  
14     of the Time Warner publications.

15                 Would I be correct that your answer there  
16     goes to the detailed knowledge presented in that  
17     answer, but that there was an understanding that Time  
18     Warner's postage charges would be considerably lower  
19     under this proposal before you did that analysis?

20          A     I expected it would be, yes.

21                 I think your question was whether that fact  
22     affected particular decisions made in the model  
23     development, and it really did not. There were many  
24     other factors I had to consider.

25          Q     Please look at your response to No. 32.

1           A     Okay.

2           Q     There we're talking about delivery point  
3 packaging or flat sequencing system, and in the middle  
4 of the answer you say that "a problem is that large  
5 volumes of flats already being entered that the DDUs  
6 would have to be brought back to the processing  
7 plants."

8                     Brought back by the Postal Service?

9           A     Someone -- no, someone would have to bring  
10 it there. The Postal Service would only accept it at  
11 the SCF level, at the plant level.

12                    So, in other words, mailers, many of them  
13 are local mailers. They would have to bring it to the  
14 SCF which might in many cases be far away.

15          Q     All right, rather than being brought -- you  
16 are not implying there that they would be delivered to  
17 the DDU, and then backhauled, but that they would  
18 be --

19          A     Well, I am sort of indicating I consider it  
20 as a backward step; that they would not have to be  
21 brought to the SCF, when in fact they used to be  
22 brought to the DDU, which in many cases is more  
23 convenient for the mailers.

24          Q     Please look at your response to No. 42.

25          A     You didn't ask me about 42, as I recall.

1           Q     I'm sorry. It's T3-42, which was redirected  
2     to you Mr. Gordon.

3           A     Oh, Mr. Gordon, yes. Print orders.

4           Q     Yes. To clarify the confusion I just  
5     created, ABM/TW, et al.-T3-42.

6           A     Okay.. Yes, I have it.

7           Q     You have that.

8                     We asked you for each of the publications  
9     printed by the Complainants to give us the print run  
10    and the number of printing plants at which it is  
11    printed. And the answer says that you are providing  
12    the information for those publications for which  
13    information has been provided to me, meaning to you.

14                    I am not clear about what that means. The  
15    information was sought for all of those publications  
16    and this was all that you got back?

17           A     Well, I think these are all the publications  
18    that we provided answers to in T1-3. They are the  
19    same publications. If there is any missing, I'm  
20    sorry, but as far as I know it's all of them.

21           Q     Okay, I didn't count, but I noticed this  
22    statement here.

23           A     No, it's just that someone had to tell me  
24    these numbers. I didn't have them ready.

25           Q     What's the advantage of printing at multiple



1 plants?

2 A I believe the advantage is for time-  
3 sensitive publications, they are closer to their final  
4 destination.

5 Q But there wouldn't be a cost savings for  
6 printing at multiple plants, would there?

7 A I don't know about that. There would  
8 obviously be certain fixed costs involved in using it  
9 in your plants. On the other hand, there would be  
10 transportation savings. So I don't know how that  
11 balances out.

12 Q Well, you can tell a little bit about it,  
13 can't you, by the number of publications that print at  
14 a single plant despite high volumes and high weight?

15 Let's take a look at "In Style" magazine,  
16 which is on the second page of your response. "In  
17 Style" weighs two pound a piece, and at 2.5 million  
18 copies, boy; if anyone could save money merely by  
19 printing at multiple plants wouldn't it be a heavy  
20 weight like that?

21 A Well, that's possible. I am not sure such  
22 proposition has been seriously looked at.

23 Traditionally, at least, it's done for  
24 service reasons, I think.

25 Q And in fact --

1           A     It may be under more optimal rates, that  
2     there will be a change in that. I don't know about  
3     that. I couldn't really speculate.

4           Q     In fact, the six publications that you  
5     listed, multiple plant publications, they are all  
6     relatively light weight, aren't they?

7           A     They are all relatively light weight.

8           Q     And there are --

9           A     It depends on what you mean by relatively  
10    light weight.

11          Q     Under eight ounces?

12          A     "People Magazine" often is more than eight  
13    ounces.

14          Q     Not more than 10, though?

15          A     Well, no. It's still a little heavier than  
16    the rest of them.

17          Q     So we have in the multiple plant titles,  
18    such as "Coastal Living," which is more than a pound,  
19    "In Style," --

20          A     Everything else.

21          A     -- I think "Brides" is 1.65 pounds. "Modern  
22    Bride", two pounds, and they are all printed at a  
23    single plant?

24          A     To my knowledge, yes.

25          Q     Would you take a look at your response --

1 please take a look at your response to No. 34.

2 A Okay.

3 Q And you gave us more information than we  
4 asked for, not atypically, but if you just compare the  
5 current rates in your table, ABM-T2-34 --

6 A Yes.

7 Q -- with the standard rates in that table, in  
8 all cases the standard rates are significantly higher  
9 than the current periodicals rate; isn't that correct?

10 A Yes. Under these assumptions, yes.

11 Q Now, is that because standard costs are  
12 higher than periodical costs?

13 A Standard pays a much higher cost coverage  
14 than periodicals do.

15 Q And is that --

16 A Especially because most of the publications  
17 are primarily compared with enhanced carrier routes,  
18 which has a 200 percent cost coverage. And so it  
19 would be very surprising in spite of that if the  
20 standards were not higher.

21 Q So would it be true then that the reason  
22 that, for example, "TV Guide" pays 16.5 cents at the  
23 periodicals rate instead of 26.25 cents at the  
24 standard rate is that "TV Guide" has educational,  
25 cultural, scientific, and information value, and for

1 other non-cost reasons periodicals rates are simply  
2 lower than standard rates?

3 A Well, let's put it this way. I also  
4 compared with standard nonprofits rates, and maybe  
5 that was one of the things that you didn't ask for.

6 Q Yes, it is.

7 A But you in fact did not specify whether you  
8 wanted regular rates or nonprofits. Nonprofit ECR has  
9 a cost coverage considerably higher than 100, and  
10 still their rates will be lower if "TV Guide" were  
11 mailed at those rates, so there may be other factors  
12 involved.

13 Q I would like to correct the record. We  
14 asked you for the postage that would be paid at the  
15 current standard rates, and I don't believe that Time  
16 is a nonprofit.

17 A No, no.

18 Q It would pay the --

19 A You didn't specify what standard means.  
20 Anyway, I gave you both for reason explained in the  
21 answer.

22 Q But your answer to my last question, do you  
23 agree that in this case the 10-cent per copy rate  
24 differential for "TV Guide" is a non-cost-based rate  
25 reduction, or rate difference?

1           A     Based on that lower cost coverage, yeah, for  
2     the periodicals class.

3           Q     And why does the periodical class have a  
4     lower cost coverage?

5           A     Well, you know all of those rates better  
6     than I do.

7           Q     I know, but I'm -- is educational, cultural?

8           A     Educational, cultural, scientific,  
9     informational value.

10          Q     That's the primary reason?

11          A     Yes.

12          Q     Please look at your response to No. 36.

13          A     Okay.

14          Q     You state that under the current rates a  
15     firm bundle is treated as if it were a piece, and  
16     under the proposed rates it's treated as if it's a  
17     bundle, and that's why "Time for Kids" doesn't do very  
18     well under the proposed rates; is that right?

19          A     That's right.

20          Q     So to that extent, there is some sort of an  
21     anomaly or a problem with the present rate that -- do  
22     you think that firm bundles get treated too well?

23          A     Firm bundles are treated as pieces. They  
24     are handled as bundles.

25          Q     And so --

1           A     And that is a discrepancy.

2           Q     Which the rates proposed here would seek to  
3 correct?

4           A     These are supposed to be cost-based rates to  
5 the extent possible.

6           Q     Do you know how many pieces, how many copies  
7 are in a typical firm bundle piece for "Time for  
8 Kids"?

9           A     "Time for Kids," it will be whatever is the  
10 size of a classroom, number of students plus one for  
11 the teacher, so it will be 25, something like that.

12          Q     Depends upon --

13          A     Depends upon --

14          Q     -- the economics of the school.

15          A     Yes.

16               CHAIRMAN OMAS: Mr. Strauss, could you give  
17 the bench an idea of about how much longer you have?

18               MR. STRAUSS: Ten to 15 minutes max.

19               CHAIRMAN OMAS: Okay. Well, then we'll go,  
20 sure. Thank you.

21               BY MR. STRAUSS:

22          Q     Please look at your response to No. 36(e).

23          A     Okay.

24          Q     Can you explain why certain portions of an  
25 issue is selected for co-palletization? What are the

1 practical considerations?

2 A I think we touched on this before, didn't  
3 we? This is information I got from "Reader's Digest."  
4 The total amount of my information about this is  
5 contained in this paragraph. I don't know why it's  
6 selective palletize some issues and not others.

7 You know, they say a certain portions of a  
8 given issue, and I assume that has to do with the  
9 destination, that there may be certain destinations  
10 which they have enough volume to co-palletize.

11 Q Okay.

12 A And I really cannot explain more than that.

13 Q In this question we asked you where it was  
14 printed, and I guess you gave us a literal answer.

15 A Yes.

16 Q But can you tell me the company?

17 A Yes, Core Baker.

18 Q Thank you.

19 You state in your testimony at page 39, line  
20 4, that the information you offer provides a  
21 foundation for rates that are truly cost-based.

22 A And where did I say that?

23 Q Well, my note says page 39, line 4, but I'll  
24 check.

25 A Okay, I have it.

1           Q     Are the rates that are proposed by Mr.  
2 Mitchell truly cost-based?

3           A     I think I have clarified somewhere else that  
4 they are -- all of this is a question of degree. You  
5 cannot totally desegregate everything. But they are  
6 certainly more cost-based than the ones now in effect.

7           Q     And the rates now in effect are what, only  
8 partially cost-based?

9           A     They do take -- they have some incentives,  
10 but they are relates to costs, yes.

11          Q     The data you provided shows that "Brides"  
12 Magazine main file mailing costs 55 cents a copy to  
13 mail, and their supplemental mailing costs 84 cents a  
14 copy to mail, 29 cents more.

15               Is that additional 29 cents a reflection of  
16 additional Postal Service costs?

17          A     Yes.

18          Q     And "Bon Appetite" has a supplemental  
19 mailing of 28,000 copies. It's main file postage cost  
20 is 26 cents a copy. Its supplemental mailing is 36  
21 cents a copy, 10 cents more under the present rates.

22               That's a cost-based differential there?

23          A     All differential are cost-based.

24               Mr. STRAUSS: That's all the questions I  
25 have at this time. Thank you.



1 CHAIRMAN OMAS: Thank you, Mr. Strauss.

2 If there is no objection, I think we will  
3 take a 10-minute break, our mid-morning break, and  
4 we'll come back to Mr. Bergin to cross-examine the  
5 witness. Thank you.

6 (Whereupon, a short recess was taken.)

7 CHAIRMAN OMAS: Good morning, and I want to  
8 apologize for the additional 10 minutes, but  
9 Commissioner-designate Don Tisdale is here with his  
10 family and might be joining us here later. Again I  
11 apologize for the delay.

12 MR. BERGIN: Good morning, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MR. BERGIN:

15 Q Good morning, Mr. Stralberg.

16 A Good morning.

17 Q I am Tim Bergin on behalf of the McGraw-Hill  
18 Company, and I have a few additional questions for you.

19 A Okay.

20 Q I'm referring you to your answer to McGraw-  
21 Hill's Interrogatory --

22 CHAIRMAN OMAS: Mr. Bergin, would you put the  
23 microphone up close so we can hear you?

24 Unfortunately, these are little antiquated  
25 microphones, so when you move your head around it

1 doesn't catch it. Okay?

2 MR. BERGIN: This better?

3 CHAIRMAN OMAS: That's perfect. Thank you.

4 BY MR. BERGIN:

5 Q I was referring you to your answer to McGraw-  
6 Hill Interrogatory T2-3.

7 A Yes.

8 Q Now, in your answer to this interrogatory you  
9 question whether a five-digit sack is likely to move  
10 more quickly to the Postal Service operations than a  
11 three-digit sack?

12 A I questioned it, yes. I know it's commonly  
13 assumed.

14 Q You do acknowledge that the three-digit sack  
15 and the five-digit sack, while they proceed together to  
16 the SCF, the three-digit sack alone would be bundle  
17 sorted at the SCF?

18 A It will be taken to bundle sorting, yes.

19 Q Not the five-digit?

20 A No. Normally -- well, it depends on in what  
21 particular five-digit zone it's taken to. If it's a  
22 zone where they process the flats on the machines at the  
23 facilities, mostly likely that sack would be taken  
24 inside to the AFSMs, or it could actually -- it will not  
25 go through a bundle sorting operation, that's true,

1     because the bundle doesn't need to be sorted, but it  
2     would either go to the -- it gets expressed to the DDU  
3     or it will be taken inside for processing on the AFSM-  
4     100.

5           Q     To the extent it is sent to DDU, isn't it a  
6     fact that the five-digit sack could likely proceed more  
7     quickly than the three-digit sack, which is bundle  
8     sorted?

9           A     It is possible. What I am suggesting is based  
10    on the service commitments and so on that the facilities  
11    have those bundles really should make it to the DDU at  
12    the same time.

13          Q     But there is an opportunity for delay?

14          A     There are always opportunities for delays.

15          Q     And greater opportunities with the three-digit  
16    package than the bundle sorted?

17          A     If they were to delay the bundle sorting  
18    operation that night, there might be an extra day.  
19    That's possible, yes.

20          Q     And it's possible that the three-digit sacks  
21    would receive AFSM-100 sorting at the SCF, but not the  
22    five-digit sacks?

23          A     Well, the sack would not but not the pieces in  
24    it, yes.

25          Q     You are saying that the pieces in the --

1           A     The pieces in the three-digit sack may be  
2     given an AFSM-100 sort, and the pieces in the five-digit  
3     sack may also be given an AFSM-100 sort.

4           Q     But not necessarily?

5           A     No. Mostly likely it would depend on whether  
6     they have an AFSM-100 scheme for that particular size at  
7     that zone.

8           Q     So in many instances the five-digit sack,  
9     avoiding the bundle sort at the SCF, avoiding the piece  
10    sortation at the SCF it moves more quickly through the -  
11    -

12          A     Well, when it comes to the DDU, it would then  
13    need to be piece sorted there, which would be an  
14    opportunity for delay.

15                So assuming that -- it works both ways.  
16    Assuming that the -- and I think that's the assumption  
17    you're going with; that the pieces from the three-digit  
18    sack are sorted at the SCF, and presumably they are on  
19    a source scheme that's planned to be ready for a  
20    dispatch. That's how the planned the source scheme for  
21    incoming, incoming secondary; that it would be ready for  
22    a dispatch to the DDU at a certain time, which might be  
23    what, three - four in the morning or something.

24                Then the pieces from the five-digit sack, it  
25    may have made it on an earlier truck, that's true, but

1     it will have to be piece sorted at the DDU if it's not  
2     piece sorted at the SCF. So that's the manual piece  
3     sorting.

4             And so what would be faster you cannot really  
5     predict with certainty.

6             Q     Would it be easier and quicker to sort the  
7     five-digit sacks, the pieces in the five-digit sack at  
8     the DDU if the five-digit sacks contains only a few  
9     pieces?

10            A     Well, they still have to be sorted along with  
11     all the other pieces. They would be taken to a manual  
12     sorting case, flat sorting case. The fact that there  
13     are a few pieces in the sack doesn't really make any  
14     difference. They will be taken to that sorting case and  
15     they would be sorted with everything else, depending on  
16     how much they do sort at the DDU.

17            Q     Would you agree that for a national weekly  
18     publication a lack in high density to many three-digit  
19     ZIP codes in order to drop-shipping is cost prohibitive  
20     as a general rule?

21            A     Unless they can drop-ship along with many  
22     other publications. Obviously, a publication by itself  
23     cannot do it.

24            Q     But we're talking about weeklies, it's much  
25     harder to coordinate.

1           A     It's much harder to coordinate, that is true.  
2     That's why some of them are air-lifted, of course.

3           Q     But publication that air-lift --

4           A     Pay a lot.

5           Q     Well, also, wouldn't it be fair to say that  
6     those publications would simply have a higher density to  
7     the destination to which the mail is early?

8           A     I don't know about that. That's possible. I  
9     don't know how the economics works of the pieces. I  
10    know there are certain computer weeklies that are air-  
11    lifted, for example. How high densities they have, I  
12    don't know.

13          Q     But certainly that's an expensive operation.

14          A     It's expensive. If you want fast delivery  
15    through the Postal Service, that's a very difficult  
16    proposition unless you do the work yourself. I think  
17    that's just reality.

18          Q     You mentioned in response to McGraw-Hill  
19    Interrogatory No. 3 that you receive a number of small  
20    weekly publications yourself?

21          A     I have received a couple, yes.

22          Q     And that on occasion the service is not very  
23    good in terms of the delivery?

24          A     It is sometimes good, sometimes not.

25          Q     And occasionally you receive one issue for one

1 of your publications that arrives after the issue for  
2 the subsequent week has already arrived?

3 A Well, the funny thing is this happened again  
4 just after I wrote this answer, yes.

5 Q So it's a problem.

6 A It's something that happens from time to time,  
7 yes.

8 Q A small weekly that wants to maintain regular  
9 timely service, does it really have any alternative  
10 other than placing what few pieces it has to a five-  
11 digit ZIP code and to a five-digit sack in order to  
12 increase the odds of getting you your publication in a  
13 more timely fashion?

14 A Well, I guess it depends on how much you're  
15 willing to pay.

16 Q They could air-lift a few.

17 A They could air-lift a few. Yes, they could  
18 send it First Class. There is many things they could  
19 do, or they could do something that I consider much less  
20 reliability, which is to place it into the sack and hope  
21 the Postal Service will take care of the sack and get it  
22 there fast. That, to me, appears to the least likely  
23 proposition if your concern is really to get it there  
24 fast. It might be the cheapest option though.

25 Q Are you aware of whether in the current rates

1 publications pay charges to their printers for mailing  
2 sacks rather than pallets?

3 A I think this is something you would have to  
4 ask Mr. Shick about. I don't really know what kind of  
5 contracts printers have with their publishers.

6 Q Do you have any knowledge whether the use of  
7 sacks rather than pallets may impose any costs upon  
8 operations with the printers?

9 A Well, certainly you will hear from Mr. Shick  
10 that he much prefers to put things in pallets.

11 Q Would you agree that under the current rate  
12 structure over the years there has been substantial  
13 movement on the part of periodical mailers away from  
14 sacks and toward pallets?

15 A Yes, there has been.

16 Q And this is under the current rate structure.  
17 What is your understanding of the reasons for that shift  
18 in container usage?

19 A Oh, I think there are many reasons. Whenever  
20 someone has enough volume to put it on a pallet,  
21 generally it's more cost-effective to do so, and it's  
22 also more cost-effective for the Postal Service. The  
23 Postal Service has been actively encouraging use of  
24 pallets for many years.

25 Q Well, first of all, why is it more cost-



1 effective for the mailers even aside from any postage  
2 incentives?

3 A Again, I am not really a specialist on that  
4 subject. There is volume that you can put on a single  
5 pallet has to be put into many sacks. So obviously the  
6 changes of error are much greater. Each of those sacks  
7 would have to be labeled separately and then handled.  
8 It's much less -- if you think about it, it's obviously  
9 much more labor on both ends, both to make up the sacks,  
10 and then subsequently for the Postal Service to open the  
11 sacks and shake the contents out again. On both ends  
12 it's more work.

13 In addition to that, there is the possibility  
14 that is whatever is in the sack will be destroyed in the  
15 process, in the transportation to its destination, so  
16 there is a high percentage of bundle breakage in sacks.

17 Q So you are saying that these are among the  
18 incentives that mailers currently have to --

19 A Yes, yes.

20 Q -- use pallets rather than sacks to the extent  
21 that they can do so?

22 A Yes.

23 Q Is it your understanding that pallets  
24 generally move more quickly through the Postal Service  
25 operations than do sacks?

1           A     I don't know about that. I don't think one  
2     can necessarily assume that. It might depend on the  
3     facility.

4           Q     As a general matter, assuming the same presort  
5     level, the same entry point, do you expect pallets to  
6     move more quickly than sacks?

7           A     Well, if we have a -- if we put the five-digit  
8     pallets on the truck, that might be unloaded, and it  
9     might be taken directly across town. If it's a five-  
10    digit sack, yes, it might involve an extra sack sort  
11    that wouldn't be necessary with a pallet.

12                So if you are just thinking terms of the  
13    number of operations performed by the Postal Service,  
14    there are more operations that need to be performed on  
15    the sack than on the pallet. So if you think about it  
16    that way, it's logical to think that pallets would move  
17    faster.

18                Now, what happens in reality, I think it could  
19    go both ways.

20           Q     Do you believe that then one of the reasons  
21    mailers, at least circulation mailers, shift from sacks  
22    to pallets just to receive better service from the  
23    Postal Service in terms of delivery time?

24           A     Well, it is true that people put mail inside  
25    these sacks to get faster delivery, so I'm not sure. It

1       may be that they also would put mail on pallets.

2               Q       But we're talking about different mailers.

3               A       We're talking about different mailers, yes.

4               Q       Some with high density to particular zones who  
5       could make up pallets, and some with smaller circulation  
6       periods to --

7               A       If you can presort -- well, it goes both ways.  
8       If you have to -- you only have enough density for an  
9       ADC pallet, for example, which is the lowest presort  
10       that the Postal Service accepts on pallets, an ADC  
11       pallet will have to go to an ADC where the bundles are  
12       sorted, and then they would go to the SCF, so you  
13       involve two facilities at this time.

14               If they could make up those bundles in sacks,  
15       they would most likely be three-digit sacks, and those  
16       sacks would go directly to the SCF. In other words,  
17       they would bypass the ADC. And so it does work both  
18       ways, I think.

19               Did I make that clear or should I say it  
20       again?

21               Q       I think your answer is clear enough.

22               A       Okay.

23               Q       Do you agree that the pallet discounts and the  
24       pallet drop-ship discounts and the co-palletization  
25       discounts on the piece rates have also encouraged

1 increased palletization?

2 A You mean the ones that were adopted in the  
3 last rate case?

4 Q Yes.

5 A Yes. I don't know how much of a difference  
6 they have made. I assume they have made some  
7 difference, yes. I would assume so. The reason I am  
8 hesitating is I haven't seen any recent volume data that  
9 would prove one way or another.

10 Q Are you familiar with the experimental co-  
11 palletization discounts for periodicals off the pound  
12 rate that was proposed earlier this year?

13 A I am familiar with that case, even the case  
14 that's still ongoing.

15 Q Yes.

16 A For high editorial publications.

17 Q Yes.

18 A Yes.

19 Q And this would provide an additional incentive  
20 to use pallets in addition to the piece discounts that -  
21 -

22 A Yeah, maybe this would if they put things on  
23 the pallets and they take it at to the destinating ADC  
24 the would get some discounts in pound rates.

25 Q In this proposed experimental discount for co-

1     palletization on the pound rates is designed to drive  
2     costs out of the system, is that correct, by encouraging  
3     mailers who don't currently palletize to begin  
4     palletizing?

5           A     Well, it's encouraged a limited number of  
6     mailers who can meet all of the criteria specified in  
7     the last proposal. It would have certainly an incentive  
8     to co-palletize and drop-ship.

9           Q     In other words, we're talking about mailers  
10    who do not presently co-palletize?

11          A     In fact, I think they have to prove that they  
12    presently co-palletize.

13          Q     Right.     And the proposed experimental  
14    discount, co-palletization discount, also would not  
15    result in increasing rates to any other mailers; is that  
16    correct? Is that your understanding?

17          A     At least not in the short run.

18          Q     Isn't it a reasonable approach for the Postal  
19    Service to provide incentives for increased  
20    palletization to discount rather than establishing a  
21    separate charge for sacks and pallets apart from the  
22    piece and pound rates?

23          A     You want -- if you want to get into the are of  
24    rate design philosophy, I am willing to express an  
25    opinion. I have to point out I'm not the expert on

1     that. I personally think it's much better to charge for  
2     the things that a mailer uses. If everybody paid for  
3     what they use seems to be much more logical and simple  
4     approach.

5             The approach being proposed in the co-  
6     palletization case will involve a lot of people who work  
7     for the Postal Service for one thing, because they have  
8     to keep track of not only what the mailers are doing,  
9     but what they might have been doing if they were not  
10    getting these particular discounts.

11            So I think simply charging for what mailers  
12    use would be the logical approach, and that's what these  
13    rates are meant to do.

14            Q     These rates introduce a considerable degree of  
15    additional complexity into the rate structure; isn't  
16    that the case?

17            A     These rates offer the possibility for removing  
18    a whole -- a whole lot of complexity in the current rate  
19    structure. I think they would actually make things a  
20    lot simpler, and many of the current discounts that  
21    could be eliminated.

22            Q     Well, now, you've added bundle charges, pallet  
23    charges, and sack charges in addition to the piece and  
24    pound charges.

25            A     Yes.

1           Q     And the sack charges and pallet charges that  
2     depend upon entry level?

3           A     Entry level, yes.

4           Q     And they depend upon presort level of a  
5     container?

6           A     Yes.

7           Q     And the bundle charges depend upon two  
8     different presort levels, the bundle and the container?

9           A     Yes. Again, you can argue that -- you will  
10    probably be arguing this with Mr. Mitchell too, but I  
11    can point out that all of the information you mentioned  
12    is something that every mailer who prepares his mail has  
13    to keep account of these things.

14                He has to -- just to meet the current  
15    regulations, he has to decide whether he has enough  
16    pieces to make up a bundle as required to a five-digit  
17    zone, and then he has to keep track of the ones that are  
18    left, and decide whether he needs to make up a three-  
19    digit bundle to the three-digit zone. Then he has to  
20    keep track of all of those bundles to see whether he can  
21    make up a sack, which he is required to do.

22                In that process he has to in any case, and  
23    most of this is done by computer, of course, because  
24    it's too difficult to do it manually, but all of these  
25    things have to be kept track of when you make up a

1 mailing.

2           It's very easy to simply count how many sacks  
3 you are making while you are making them, and count how  
4 many pallets you are making while you are making them.

5           So it really should not be any additional  
6 complexity. There are -- and like I said, there are  
7 many -- many of the current discounts, because they are  
8 not really cost-based, that can be eliminated.

9           Q     Well, it's not simply a matter of counting  
10 sacks and pallets, it is?

11          A     It's a matter of counting sacks per presort  
12 levels, and which is something you also have to keep  
13 track of anyway.

14          Q     Well, that's just to calculate the postage.

15          A     Yes.

16          Q     Isn't there a great deal of increased  
17 complexity in the decision-making added in order to  
18 consider the myriad of options that arise under --

19          A     There is --

20          Q     -- structure to decide which one is most cost-  
21 effective --

22          A     There doesn't have to be.

23          Q     Pardon?

24          A     There have to be, and some of those things are  
25 very -- would be fairly simple anyway. But if you



1     compare the bundle charges and the piece charges, it  
2     will not be difficult to decide how many pieces you need  
3     to put in a bundle for it to make sense. That's a very  
4     simple calculation. Everybody know the presort level.

5             And the same thing with the pallet. When  
6     would it make sense to make up an extra pallet, for  
7     example? These things will be -- in reality -- be put  
8     into software that will be generated and will be used by  
9     licensed small mailers.

10            Q     Aren't there are a number of decisions as to  
11     whether to shift from five-digit sacks to heavier three-  
12     digit sacks, or from five-digit pallets to fewer and  
13     heavier three-digit sacks?

14            A     Well, again, on the -- if you are just looking  
15     at the cost, if you compare the cost of a three-digit  
16     sack and the cost of a five-digit sack, and then you  
17     know how many bundles you have, it wouldn't be too  
18     difficult to compare the bundle charges and the sack  
19     charges.

20                    I mean, it's certainly not more than high  
21     school mathematics to figure out how many bundles you  
22     need before it makes sense to make up a pallet of sacks.

23            Q     Well, you have taken a very simple case, but  
24     for a --

25            A     They will all be simple when you look at it.

1 It's easy to make it sound very complicated.

2 Q Well, referring you to your answer to McGraw-  
3 Hill Interrogatory 6.

4 A Okay.

5 CHAIRMAN OMAS: Excuse me, Mr. Bergin, if I  
6 can interrupt for just a second.

7 We have been joined here by Commissioner  
8 Designate Don Tisdale, and I just wanted to recognize  
9 him. He is in the back of the room, and we welcome him  
10 here today. Mr. Tisdale, thank you for stopping by.  
11 This is what you have to look forward to when you become  
12 a commissioner.

13 Thank you, Mr. Bergin.

14 MR. BERGIN: Certainly.

15 BY MR. BERGIN:

16 Q Now, first of all, you state in your answer to  
17 Interrogatory No. 6 that without software, preparing  
18 mail that meets the complex postal regulations, even for  
19 small mailings, is a nearly impossible task.

20 A I do state it's impossible. Obviously, it's  
21 done by very small mailer.

22 Q You state "a near impossible task."

23 A Yes. And that's, of course, a relative term  
24 because if you have 500 pieces, I don't think it's  
25 impossible.

1           Q.    But we're talking about a little more than  
2   high school math, at least for most mailers.

3           A    Why do you say that?

4                   What I am suggesting is that for the vast  
5   majority of mailers, certainly for the vast majority of  
6   the volume there will be some kind of software that's  
7   used.  And these decision, I believe in fulfillment  
8   software, that what exists today already there are a  
9   number of options that are set that mailers can choose.  
10   If they want to develop this software would have to  
11   maybe provide some new options, and develop some  
12   guidance for what's the optimal decision-making.

13                  Right now the Postal Service sets various  
14   minimums.  You need to have so many pieces per bundle,  
15   for example.  And now for certain types of standard  
16   bundles you need 15 pieces.  That's a new decision.

17                  So those minimums won't really be necessary  
18   anymore.  They will be replaced by simple economic  
19   calculations where you can determine whether it makes  
20   sense to make up another bundle or not.

21           Q    But for new options and guidance, would you  
22   expect software developers to introduce in terms of --

23           A    I am not a specialist on that, but they would  
24   obviously allow you to make choices as to how important  
25   it is for you to have smaller bundles; for example,

1       where would you want this as a trade-off? At which  
2       point do you create the new bundles, for example?

3               Say you have 30 pieces to a five-digit area,  
4       and you have six pieces going to the same carrier route.  
5       Is it economical or not to make up a carrier route for  
6       those six pieces? You are going to pay for an extra  
7       bundle, but you're going to pay a lower piece rate on  
8       those six pieces. It's a fairly simple calculation, I  
9       repeat.

10              It could be into the formal options in the  
11       program or it could be something that could be hard  
12       coded.

13              Q     Mr. Stralberg, you have taken the position in  
14       your testimony that the best hope for cost containment  
15       for the periodicals class is to bypass Postal Service  
16       operations and transportation to the extent possible, is  
17       that your --

18              A     Yes.

19              Q     Do you have an understanding of why Postal  
20       Service transportation is not competitive with the  
21       private sector given the scale of the operations and the  
22       fact that they contract with private contractors?

23              A     Well, I have some theories, okay. I haven't  
24       really studied the matter. But -- well, I'm not going  
25       to say it's because the Postal Service is a government

1 organization, but apart from that the Postal Service  
2 operates a system of scheduled routes, highway routes,  
3 for example, where every day from point A a truck leaves  
4 at a ceratin time with mail to point B, and then it goes  
5 on from there to point C.

6 So on different days of the week there may be  
7 a lot of volume on that truck, and there may not be much  
8 volume at all. That truck has to leave because it's  
9 scheduled and because there are service commitments for  
10 the few pieces of mail that are being carried. My --

11 Q When -- excuse me. go ahead.

12 A Yeah. My understanding, when a printer or a  
13 consolidator arranges a drop-shipment, first of all,  
14 they know exactly of planning the drop-shipments. They  
15 know exactly what's going to go in that drop-ship,  
16 because they make arrangements with mailers that they  
17 are going to have such and such, so and so many pallets  
18 from this publication and so on. And so they make sure  
19 they have a full truck, and not only full drawer space,  
20 but full up to the ceiling of the truck.

21 And so they can thereby receive a very high  
22 utilization on that truck, which I don't think the  
23 Postal Service really can do because of the way it  
24 operates, and because it operates not on a service basis  
25 where it has to service all kinds of mail, including

1 First Class and Priority and so on.

2 Q If I understand your answer correctly, are you  
3 saying one of the challenges the Postal Service faces in  
4 its transportation network is maintaining high  
5 utilization of relatively fixed transportation  
6 infrastructure?

7 A Well, I'm not really saying that. The  
8 challenge it faces is to be able to serve all its  
9 customers and meet its service commitments at the lowest  
10 cost possible, and that means sometimes that they have  
11 to run trucks that are mostly empty.

12 There might be ways that they could -- now, if  
13 on a consistent basis a truck is not full, then  
14 obviously they should contract for a lower capacity on  
15 that route or eliminate that route altogether.

16 Many of the plant load routes, they have  
17 simply eliminated because mailers stopped using them,  
18 and so today it's almost only periodicals that are using  
19 plant loads. Standard and partials more or less stopped  
20 using it.

21 Q Are you aware of the typical duration of a  
22 contract which the Postal Service would enter into a --

23 A A highway contract.

24 Q -- highway contract?

25 A Yes, it's normally four years.

1 Q Four years?

2 A Yes, at least that's what I heard some years  
3 ago, and I think that's still true.

4 Q So if periodicals mail were to decline in  
5 volume, it could be four years before the Postal Service  
6 would be able to adjust its costs by renegotiating the  
7 contract in order to --

8 A I -- I --

9 Q -- reflect a lower volume?

10 A I think they have more options. I think they  
11 have more options than that. I mentioned in my response  
12 to one of your interrogatories, I gave a list of the  
13 kind of transportation modes that the Postal Service  
14 really uses for periodicals.

15 The thing that is used almost exclusively by  
16 periodical is Amtrak. I don't really know their rates  
17 on Amtrak, but I don't think they are that low. I think  
18 you can probably get better deals elsewhere. But  
19 periodicals travel on Amtrak a lot.

20 They pay exactly for the space they use, so  
21 that if they were only to send half as much periodicals  
22 by Amtrak, they would pay exactly half as much.

23 Q Do you know --

24 A That's the type of transportation -- that mode  
25 of transportation for the Postal Service might, in other

1 words, disappear if mailers have sufficient incentive to  
2 drop-ship.

3 Q Do you know how long the duration of the  
4 Postal Service contracts with Amtrak, how often those  
5 are renegotiated?

6 A I don't know the nature of the Postal  
7 Service's contract with Amtrak. My understanding is  
8 that they are -- that they pay for the volume they use.  
9 That's subject to check, but that's my understanding.

10 And at least the Postal Service and the Rate  
11 Commission have agreed in a number of rate cases that  
12 those costs are exactly 100 percent volume variable, and  
13 they are exactly proportional to the volume used.

14 Q Wouldn't you expect that if volume of  
15 periodicals and mail on Amtrak declined significantly,  
16 that Amtrak would likely seek and obtain a higher rate  
17 to --

18 A Well, you might -- should really argue these  
19 points with Professor Bradley who was a witness for the  
20 Postal Service in several rate cases, and he was the one  
21 who proposed these high volume variabilities that are  
22 now in effect, and that both the Postal Service and the  
23 Commission seem to believe in them, and those costs have  
24 been probably attributed to periodicals.

25 If you want to argue that those cost impacts



1 are not solely volume variable, then you are, in fact,  
2 arguing they should not be attributed to periodicals in  
3 the first place.

4 Q I think I was suggesting that with a decline  
5 in volume the cost of the -- the level of the marginal  
6 cost could increase.

7 A Again, then you are in fact proposing that  
8 those costs are not totally volume variable.

9 Q Let me refer you to your answer to McGraw-Hill  
10 Interrogatory T2-8. Yes, we are getting to that  
11 eventually.

12 A Okay.

13 Q On page 2, the carry-over paragraph, the  
14 second to the last sentence you state, "It is true that  
15 when volume declines dramatically the marginal cost  
16 might increase for the volume that remains."

17 A Where do I state that exactly?

18 Q I think in page 2, the carry-over paragraph.

19 A As a general proposition, that is true.  
20 However, if the costs are 100 percent volume variable,  
21 that's not possible, which is what I state in the next  
22 paragraph. And in fact all of the transportation modes,  
23 except the intra-CFR, have a high degree of volume  
24 variability, at least according to what was agreed in  
25 the last rate case, or the several rate cases.

1           Q     Let me just ask you about that sentence that  
2     I quoted.    So if volume declines dramatically, then  
3     there can be a greater fixed cost burden on the mail  
4     that remains to the extent costs are fixed?

5           A     If there are certain fixed costs, then  
6     obviously those fixed costs -- well, for one thing they  
7     would not be attributed to periodicals.  They would be  
8     part of institutional costs as such, and with the  
9     periodicals current cost coverage, periodicals will  
10    basically not pay for those fixed costs anyway.

11          Q     But if the cost coverage for periodicals were  
12    to be increased in any case and --

13          A     They would pay their share of institutional  
14    costs, and that can be.

15          Q     And captive mailers who are not able to opt  
16    out of the system would pay a higher percentage.

17          A     All, all mailers would pay the same  
18    proportionate of institutional costs.  Institutional  
19    costs are not charged to mailers who are still using a  
20    transportation system.  They are charged to all mail.

21          Q     But to the extent there are fewer mailers in  
22    the system, then they pay a greater percentage.

23          A     Which system do you mean?

24          Q     The processing and transportation system of  
25    the Postal Service.

1           A     Periodicals in any case are really a small fry  
2     in the total picture of the Postal Service. They use a  
3     small portion of the transportation system except the  
4     Amtrak contract. They use just a small portion of the  
5     highway route. They use a small portion of the  
6     processing, mail processing capabilities.

7                     Whether periodicals disappear or not, it's not  
8     going to make that much of a difference in terms of the  
9     fixed costs that remain in the system. They still have  
10    a lot of standard and First Class Mail.

11                    So the idea that because periodicals use fewer  
12    resources that somehow there would be a huge increase in  
13    fixed costs, that doesn't quite -- quite make sense.

14           Q     Are there drop-shipping centers for bulk  
15    mailers in all classes?

16           A     Not in First Class.

17           Q     But certainly in Standard Class?

18           A     In standard and in package services, yes.

19           Q     In the event elements of the proposed rate  
20    structure were to be adopted for periodicals, do you  
21    think that the same approach would logically apply in  
22    other classes?

23           A     I think many of the ideas that have been  
24    proposed here could be adopted both to standard. And  
25    therefore standard, however, already have -- standard

1 already deserted the plant load system like I mentioned.  
2 Their drop-ship system incentives appear to be  
3 sufficient for that. They are still using the rest of  
4 the transportation system. I don't see any reason to  
5 believe that proposing cost-based rates would make that  
6 much of a difference. It's not like the Postal Service  
7 would have nothing to do anymore, and that there would  
8 be no transportation.

9 Certainly the highway routes, the intra-ICF  
10 highway routes would still continue, and those routes  
11 are used mainly by First Class and Priority.

12 Q Back to your statement that when volume  
13 declines dramatically the marginal cost might increase  
14 for the volume that remains.

15 Were you intending to state something other  
16 than that with the decline in volume there is a greater  
17 burden to the extent costs are fixed?

18 A To the extent costs are fixed, I am  
19 recognizing that that's a theoretical matter. The  
20 marginal costs are -- by definition marginal costs are  
21 defined as a response in costs to small changes in  
22 volume.

23 So as a theoretical matter, you cannot assume  
24 that the marginal costs will remain the same in a  
25 dramatic volume difference. As you get closer to zero,

1 obviously the marginal cost can change depending on the  
2 relationship between cost and volumes, which may not be  
3 known unless you actually try it.

4 But again, I'm pointing out that when you have  
5 true volume variability, then you have a very simple  
6 relationship between cost and volume. And to the extent  
7 that the Commission assumes and has reason to assume  
8 full volume variability, this does not apply. The  
9 marginal cost is always the same.

10 Q Is it a fair statement that machineable flat  
11 mail is sometimes processed manually simply because  
12 there is too high a degree of -- too large a volume of  
13 flat mail for the AFSM-100 to process for any given time  
14 period?

15 A It's possible. The more common situation  
16 seems to be where the AFSM-100, that they will process  
17 mail that's officially not machineable. They are  
18 looking for more mail to put on the machine.

19 It is still possible that at certain times of  
20 day that there is a large volume that has to meet a  
21 certain dispatch and that particular facility is very  
22 concerned about meeting that dispatch, and so they will  
23 sort some pieces manually to have -- they will add the  
24 manual capacity to the machine capacity.

25 There are, of course, possibilities -- it is,

1 of course, possible that various machine break down,  
2 those things happen. Generally if something is going to  
3 a zone with less than 10 carrier routes, they will not  
4 sort them from the machine. They will do that manually.

5 Q Periodicals and flat mail is often sorted  
6 separately from say standard flat; isn't that the case?

7 A Yes, they are keeping it separate more than I  
8 think they should. When it comes to the incoming  
9 secondary operation, many of the facilities today will  
10 combine periodicals either with First Class or with  
11 standard, because it really doesn't make any sense to  
12 keep them separate at that point.

13 When you go further back in the mail stream,  
14 we have, for example, evidence that -- why do some  
15 periodicals travel in airplanes? They really shouldn't.  
16 I tried to pursue that with some interrogatories. I  
17 think it was in the last case actually.

18 Periodicals should not go airplanes, but they  
19 do, and it seems the reason was that periodicals are  
20 being sorted together with other flats, with First Class  
21 flats already as an outgoing distribution. Because of  
22 that they end up in a flat tray, with First Class flats,  
23 and therefore they go in the airplane. So they are in  
24 fact sorted with other flats to a large extent.  
25 Sometimes they are kept separate. Sometimes not.

1           Q     In a situation where there are too many flats  
2     for a given facility for an AFSM-100 to process within  
3     the critical time period --

4           A     Um-hmm.

5           Q     -- isn't it a fact that the larger volume  
6     standard flats will --

7           A     It is something --

8           Q     be given priority over periodicals --

9           A     Well, then that --

10          Q     -- for processing on the AFSM-100?

11          A     That happens. It is contrary to what every  
12     facility manager will tell you. I mean, they always  
13     give priority to periodicals over standard.

14          Q     Even when there is a much larger volume of  
15     standard available for processing on the --

16          A     They are supposed to process the periodicals  
17     first.

18          Q     Now you were part of the Joint Industry Postal  
19     Service Work Group --

20          A     Yes.

21          Q     -- back in the nineties.

22          A     Yes.

23          Q     And wasn't it one of the conclusions of that  
24     group in its report that sometimes periodicals are  
25     relegated to manual in deference to larger volumes of

1 standard mail?

2 A On the -- well, first of all, they didn't have  
3 the AFSM-100s back then. It was a somewhat different  
4 situation.

5 Q Well, could you answer my question first?

6 A Well, yes, I'm going to answer that too.

7 With regard to piece sorting, I don't think  
8 that was true. It may have been true with regard to  
9 bundle sorting, because on bundle sorting operations if  
10 they are concerned about keeping the two volumes  
11 separate, sometimes they will do the periodicals  
12 manually, and they will still tell you that they are  
13 giving you better service, that they are doing it for  
14 service reasons. But on the machines -- on the piece  
15 sorting machines, I don't think that's the case.

16 Q You have stated in your answer to McGraw-Hill  
17 Interrogatory No. 8 that you are not aware of the degree  
18 of volume variability of sack sorting costs?

19 A That's true. I am saying that there might be  
20 difference -- difference in opinions, and I am referring  
21 there to the Postal Service versus the Commission,  
22 because I think that's one of the operations where there  
23 have been some disputes about volume variability, and I  
24 am not prepared to take any position on that -- what is  
25 the true volume variability of sack sorting.



1           Q     So you cannot opine on whether -- to the  
2     extent there is a shift from sacks to pallets, that  
3     greater fixed costs of sack sorting would be imposed  
4     upon those mailers who are unable to -- for whatever  
5     reason -- to --

6           A     Again, periodicals are a very small user of  
7     sack sorting equipment. Sack sorters exist mostly at  
8     the BMCs, and periodicals are not supposed to use -- to  
9     go on them together with standard. They do, but they  
10    are not supposed to, but they are still a small user  
11    compared to standard.

12          Q     There are also sack sorters at processing  
13    distribution centers; is that correct?

14          A     Yes, they still have some. I think sacks  
15    ordering and SCS is mainly a transportation system.  
16    It's a conveyor system that will take sacks and parcels  
17    to a few locations within the facility.

18                 You cannot really compare those sacks orders  
19    with the ones that exist in the VMCs, which will sort to  
20    many, many destinations.

21          Q     In advocating that periodical mailers bypass  
22    Postal Service processing and transportation to the  
23    extent possible, you refer to the fact that over the  
24    past 12 years at least anomalous cost increases for  
25    periodicals mailed. Is that correct?

1           A     Yes. That goes back many years. In fact,  
2     basically since 1986 and especially in the few years  
3     after 1986. There were very large increases for a  
4     number of years.

5           Q     These were large increases, notwithstanding  
6     increases in work sharing by periodicals mailers?

7           A     At that point, if we look at the period with  
8     the largest increase in periodical cost, which was from  
9     1986 to 1990 or 1991, the main difference was that they  
10    introduced automation of letter mail. That was the main  
11    event during those periods. There wasn't that much of  
12    a change in work sharing in those particular years, I  
13    don't think.

14                They also introduced more flat sorting  
15    machines and improved those flat sorting machines a  
16    couple of times.

17           Q     And what's your view --

18           A     I think actually the percent of carrier route  
19    presorts of periodicals actually went down between 1986  
20    to 1989. Then a few years afterwards when they really  
21    started to do selective binding, that percentage went up  
22    again.

23           Q     What is your view as to the reason for the  
24    unusually large periodicals cost increases during this  
25    period when flat and letter sorting equipment was

1 introduced?

2 A Well, do you really want me to get into that?  
3 I mean, I've written several testimonies about it. I  
4 have a long argument with the Postal Service.

5 Q In general.

6 A The answer has never been given, okay? The  
7 mystery about the large cost increases has never been  
8 told. Let's put it that way.

9 You could have me repeat some of that. I'm  
10 not really prepared to get into everything I've said  
11 before in great detail.

12 Q I understand.

13 A A lot of it has to do with the fact that part  
14 of the mail stream was being automated, thereby  
15 incurring fewer variable costs, but higher fixed cost.  
16 Those fixed costs were then -- a higher portion of those  
17 were then given to the mail that still was predominantly  
18 done manually.

19 That was the theory I presented in several  
20 testimonies and which I think is still valid to a large  
21 extent.

22 Q Part of your theory related to the so-called  
23 automation refugees.

24 A Yes. I think I'm being blamed for having  
25 invented that term.

1 Q That wasn't something you invented, I trust?

2 A I actually am not sure who invented it. It  
3 came up in conversations, and I'm not sure if it was my  
4 term or not, but I used it in some testimonies in the  
5 past.

6 Q But your point was that the greater automation  
7 of some operations didn't lead to a reduction in cost,  
8 but the reassignment of mail handlers to --

9 A That was part of the argument, yes. That  
10 certainly happened.

11 Q -- periodicals piece sorting operations?

12 A I'm certain that happened in certain periods  
13 at least.

14 Q And part of your theory was misallocations of  
15 IOCS costs, mixed mail costs and so forth?

16 A That's a long, complicated issue too.

17 Q In any event, just to move on, there was  
18 significantly increased work sharing by periodicals  
19 mailers through the 1990s in terms of --

20 A Through the 1990s there was, yes.

21 Q -- greater piece sortation, greater bar  
22 coding, greater drop shipping, greater palletization.

23 A Yes. The main interest in presorting occurred  
24 in the early 1990s when they started to do selective  
25 binding in many printing plants.

1           The greatest increase in drop shipping has  
2           occurred the last few years.

3           Q     Although there have been increases in drop  
4           shipping through the 1990s?

5           A     Since the initial piece discount for  
6           destination SCF entry was introduced in 1984 or in 1985  
7           actually, drop shipping by mailers to the SCF has been  
8           increasing almost continuously.

9           Q     And what happened to periodicals mailers'  
10          costs in the period 1995 through --

11          A     Again, it has very little to do. That is a  
12          different equation altogether. It has to do with mail  
13          processing.

14          Q     There were anomalous, is it fair to say,  
15          increases in periodicals costs that could not be squared  
16          with the amount of work sharing that periodicals mailers  
17          were doing?

18          A     Yes. There are many unanswered questions.

19          Q     Under the proposed rate structure, the  
20          majority of smaller publications would likely see a  
21          substantial rate increase as a result of the deaveraged  
22          rates that you propose. Is that a fair statement?

23          A     Well, that depends on how they react to it.  
24          It's not a given that all small publications would  
25          experience an increase. Some of them might experience

1 a decrease. Those who don't might have incentive to  
2 make various changes. That will actually help them.

3 Q Well, it's true that the majority at least in  
4 the first instance are facing an increase, a substantial  
5 increase?

6 A If you assume that no one will change their  
7 mailing practices, which is an unlikely assumption.

8 Q Secondly, it may be very difficult for small  
9 publications that lack volume density to particular zip  
10 codes to make changes in terms of drop shipping and  
11 palletization and so forth because they lack the volume.  
12 Is that correct?

13 A Again, they will certainly need help from  
14 others. They will have to do something together with  
15 other publishers. They will need the help of  
16 consolidators and printers who can arrange drop  
17 shipping. They will have a considerably higher  
18 incentive to do so than they do right now.

19 Q And many publications will have a difficult  
20 time; for example, weeklies that have less latitude in  
21 changing their schedules to accommodate comailing or  
22 copalletization.

23 MR. BURZIO: Mr. Chairman, Counsel Bergin  
24 appears to be testifying in this last line of questions  
25 and stating a lot of factual matter that is not in the

1 record. I object on that basis.

2 MR. BERGIN: Mr. Chairman, I think I'm  
3 entitled to use leading questions with an adverse  
4 witness. Certainly the witness is capable of making any  
5 points that he desires with any assumptions in my  
6 questions.

7 CHAIRMAN OMAS: All right. I'll allow it.

8 THE WITNESS: Well, let me just say that I'm  
9 not really capable of answering these questions on  
10 behalf of mailers. I have not worked enough in the  
11 operations for either larger or small mailers, and I  
12 cannot really answer all of these questions.

13 I assume that people will use their creativity  
14 and that there will be an entrepreneurial spirit that  
15 will help create new systems that maybe don't exist  
16 today to help these publications find an alternative to  
17 the Postal Service transportation, for example, but I am  
18 not really someone who can speculate on exactly how that  
19 will happen or how soon it will happen.

20 BY MR. BERGIN:

21 Q Putting aside for the moment the extent of the  
22 increase that many mailers would face under the proposed  
23 rate structure --

24 CHAIRMAN OMAS: Would you talk into the mike,  
25 please?

1 BY MR. BERGIN:

2 Q Putting aside the extent of the increase that  
3 many mailers may face if the proposed rate structure  
4 were to be adopted and putting aside their ability or  
5 lack of ability to make changes to avoid that, if the  
6 anomalous cost increases which have plagued periodicals  
7 mail over the last decade above and beyond projections  
8 and seemingly contrary to the work sharing that  
9 periodicals mailers have undertaken, if those anomalous  
10 increases continue then those mailers who are more  
11 dependent upon the Postal Service for processing, as  
12 well as transportation, will see even higher increases.  
13 Is that a fair statement?

14 A I would characterize it as speculation that  
15 you're asking me to agree to.

16 Q Speculation that the --

17 A Well, for one thing, you know, when costs are  
18 already very high nothing keeps increasing forever so if  
19 unit costs already are high you're saying if they just  
20 continued on the same curve then things will get worse  
21 and worse, and I will agree with that.

22 Whether or not other mailers are able to  
23 partly escape from this system -- again periodicals are  
24 a relatively small portion of the system, especially in  
25 transportation, most transportation modes. Whether you



1 have periodicals or not is going to have some impact,  
2 but not a dramatic impact on the total volume.

3 The speculation that some periodicals might  
4 have much higher costs because some periodicals are  
5 bypassing those operations, I don't think that's really  
6 meaningful.

7 Q Isn't it a fair statement, and you've  
8 testified in the past, that periodicals mail in  
9 particular was subjected to extraordinary cost increases  
10 over the past 15 years for mail processing?

11 A Back in the period when I referred to from  
12 1986 and 1991 roughly, there was very high increases for  
13 periodicals mail in the mail processing portion part.  
14 There were also very high increases for certain other  
15 classes of mail, including carrier routes standards.

16 It's true that over a 15-year period  
17 periodicals have had a particular problem with  
18 continuing cost increases. Now, the Postal Service, in  
19 one of the interrogatories I answered, was trying to  
20 make the point that those increases have stopped and  
21 that things are getting better now and they're actually  
22 going down a little bit.

23 You would expect that because they have much  
24 better technology now than they used to. Also, the one  
25 thing that the Postal Service can do to reduce their

1 cost seems to be to reduce their workforce, which they  
2 have been doing the last few years. Again, it  
3 doesn't --

4 Q Did you take issue with the Postal Service in  
5 that regard?

6 A In which regard? You'll see my answer. I  
7 point out that given all of the things that have  
8 happened, periodicals cost should have dropped quite a  
9 bit in the last few years. They have actually dropped  
10 a little bit, but they should have dropped much more.

11 Q And you attributed the drop that occurred to  
12 a change in the --

13 A Again, it's in my answer to the Postal  
14 Service. There has been a change in the cost  
15 attribution for one thing.

16 MR. BERGIN: Thank you, Mr. Stralberg. I have  
17 nothing further at this point.

18 CHAIRMAN OMAS: Thank you, Mr. Bergin.

19 Is there anyone else or any other party who  
20 would like to cross-examine this witness?

21 MS. DREIFUSS: Mr. Chairman, I have one  
22 follow-up question for Witness Stralberg.

23 CHAIRMAN OMAS: Ms. Dreifuss?

24 CROSS-EXAMINATION

25 BY MS. DREIFUSS:

1           Q     Mr. Bergin early in his cross-examination  
2     asked you to compare what might happen to a five digit  
3     bundle in a sack at a processing and distribution  
4     center, to a three digit bundle, which I believe arrived  
5     on a pallet --

6           A     I thought he meant a five digit bundle in  
7     either a five digit or a three digit sack. That was one  
8     conversation. Was there another?

9           Q     Well, it probably doesn't matter.

10          A     Okay.

11          Q     I was actually going to ask you about the next  
12     step for both of these bundles, both the three digit  
13     bundle and the five digit bundle.

14          A     Okay.

15          Q     This is my question. If a five digit bundle  
16     in a five digit sack --

17          A     Okay.

18          Q     -- is brought into the PNDC --

19          A     Yes.

20          Q     -- for sortation, and I think you said that  
21     sometimes happens.

22          A     Yes, it could happen, especially if they do a  
23     machine sort of that particular five digit zone. They  
24     should bring it inside.

25          Q     It would go on an AFSM-100, I believe?

1           A     Yes, most likely.

2           Q     And it would be sorted to carrier routes --

3           A     Yes.

4           Q     -- in that operation?

5           A     Yes.

6           Q     Now, the three digit bundle, which might be  
7 opened, I guess would have to be opened, at the  
8 processing and distribution center?

9           A     If it's a three digit bundle, again that's a  
10 different matter. That would go to what they call an  
11 outgoing primary. No. Incoming primary -- I'm sorry --  
12 which is a sortation again which would more likely be  
13 done on the AFSM-100 where they sort the mail down to  
14 the five digit level.

15          Q     So the pieces in the three digit bundle would  
16 actually go through the AFSM-100 operation two times,  
17 first as the --

18          A     Yes, at least once and then a second time. It  
19 might be done manually, or it might be done also on the  
20 machine.

21          Q     I see. But it would be required to sort it  
22 first to five digits?

23          A     Exactly.

24          Q     And then later in another operation to sort it  
25 to carrier route?

1           A     Exactly, yes.

2           MS. DREIFUSS:   Thank you.

3           CHAIRMAN OMAS:   Thank you, Ms. Dreifuss.

4           Is there anyone else?   Just a minute.

5           Again, I sort of messed up at the beginning of  
6   the session this morning.   I'd like to again note that  
7   in passing that both American Business Media and McGraw-  
8   Hill Companies combined their notices of intent to  
9   cross-examine with their designation of written cross-  
10  examination.

11           In order to facilitate recordkeeping through  
12  our electronic filing system, the Commission asks that  
13  each individual procedural action or request be  
14  contained in a separate document.   This allows for  
15  accurate coding of documents so that they can be easily  
16  identified and accessed through the search capabilities  
17  of our website.   I ask all participants to attempt to  
18  comply with that practice during the remainder of that  
19  case.

20           Are there any questions from the bench?  
21  Commissioner Goldway?

22           COMMISSIONER GOLDWAY:   I'm not sure if you can  
23  answer this, but some of your questions peaked my  
24  curiosity when you were talking about how little mail  
25  the periodical mail stream accounts for in the overall

1 mail stream of the Postal Service. If it went away,  
2 institutional costs would still be more or less what  
3 they are now.

4 What is the relationship between periodicals  
5 and other mail volume that is generated by them or for  
6 them? Do you have a sense of what the relationship is  
7 between periodical mail and the rest of the mail stream  
8 that periodical mail is connected to?

9 MR. STRALBERG: Again, I'm not the right  
10 person to answer that, but I'll try and answer it  
11 anyway.

12 A periodical is something that people look  
13 forward to receiving. They actually look at it when  
14 they receive it. Periodicals usually contain  
15 advertising and so it generates maybe mail orders, maybe  
16 additional package volumes. A periodical has to be  
17 renewed, so there are bills sent out to the recipient,  
18 and they send their payment back. Both of those could  
19 be done electronically now, of course, but mostly they  
20 are still done through first class mail. There are  
21 obviously many ways.

22 There are other people who are closer to the  
23 industry who could probably tell you much more about  
24 that, but obviously periodicals help to generate a lot  
25 of other mail volume. I don't think that would

1 necessarily change if periodicals were to use less of  
2 the Postal Service's transportation and processing  
3 capacity because they would still be delivered by the  
4 Postal Service. They would still be in the mail stream  
5 at the end.

6 The delivery capability of the Postal Service  
7 is what most periodicals really need. They cannot  
8 bypass that very easily.

9 COMMISSIONER GOLDWAY: That was my other  
10 question. Do you think that there's an alternative  
11 delivery system for periodicals that they could  
12 realistically use so that they would in fact go away  
13 altogether?

14 MR. STRALBERG: What I've been told, and again  
15 this is all secondhand from my side, is as long as the  
16 Postal Service has a monopoly on the mailbox, and people  
17 like to receive their mail in the mailbox rather than on  
18 their lawn, it seems unlikely.

19 Of course, newspapers are able to do that to  
20 a large extent because they have a high density in a  
21 particular area, but most periodicals I think would  
22 continue to depend on the Postal Service for delivery,  
23 and the ability to set up an alternative delivery system  
24 of periodicals I think would hinge to a large extent on  
25 them being able to access the mailbox.

1           COMMISSIONER GOLDWAY: What do you think the  
2 elasticity is for periodical rates so that customers  
3 would be willing to pay higher rates for higher delivery  
4 costs?

5           MR. STRALBERG: I really can't speculate. I  
6 think with time sensitive publications they might be  
7 willing to pay more for speedy delivery. I think that's  
8 the main reason *Wall Street Journal* has been shifting  
9 away from the Postal Service. They use their own system  
10 in many locations because people would like to read  
11 their stock quotes in the morning rather than in the  
12 afternoon when it's too late.

13           For weeklies it may not be such a big issue,  
14 but I assume there might still be some market because of  
15 faster delivery.

16           COMMISSIONER GOLDWAY: Thank you.

17           CHAIRMAN OMAS: Are there any additional  
18 questions from the bench?

19           (No response.)

20           CHAIRMAN OMAS: There being none, Mr. Burzio,  
21 would you like some time with your witness to review if  
22 there is any need for redirect?

23           MR. BURZIO: No, Mr. Chairman. I think I  
24 could complete that within 10, not more than 15,  
25 minutes.



1 CHAIRMAN OMAS: I beg your pardon?

2 MR. BURZIO: I'm prepared to do redirect at  
3 this point, and I estimate it will take about 10  
4 minutes, not any longer than 15.

5 CHAIRMAN OMAS: Good. We shall proceed then.  
6 Thank you.

7 REDIRECT EXAMINATION

8 BY MR. BURZIO:

9 Q Mr. Stralberg, when Mr. Straus was cross-  
10 examining you he got into the subject of hot pubs. He  
11 had posed two interrogatories to you, ABM-TW-4 and 5.

12 A Four and 5.

13 Q In the course of that discussion, you said  
14 that you had seen recently a hot pub list from  
15 Charlotte, but you weren't able to find it. Have you  
16 since been able to find it?

17 A I found it as soon as Mr. Straus was finished  
18 cross-examining me.

19 Q Could you tell us how many publications were  
20 on that list?

21 A It's a total of 29.

22 Q And how many were published by Time Warner?

23 A Four, I believe.

24 Q And how many were ABM publications that you  
25 could identify?

1           A     Well, I had a discussion with Mr. Straus  
2 actually in the break whether or not *Business Week* is an  
3 ABM publication.     *Business Week* is one of the  
4 publications that was on the list. The others are  
5 *American Banker*, *Computer World* and *Network World*,

6           Q     Does *Business Week* depend upon whether it is  
7 in fact a member of ABM?

8           A     I thought it was.

9           Q     Okay. He also asked you some questions about  
10 your mail flow models for automated mail, and you got  
11 into a discussion about how some mail that has a bar  
12 code on it is actually processed manually rather than on  
13 the machine.

14                     Do your mail flow cost models store automated  
15 mail? Do they reflect how that mail is manually  
16 handled?

17           A     Presumably so, yes. I, of course, have used  
18 the Postal Service data, but presumably they have done  
19 surveys of how much mail is actually sorted on the  
20 machines in various locations. The model percentage is  
21 based on that.

22           Q     It contains proportions?

23           A     Proportions, yes.

24           Q     Mr. Bergin asked you some questions about  
25 recent copal discounts, including one that has not yet

1       been approved.

2               If you were to compare those discounts to the  
3       incentives for either palletizing or copalletizing under  
4       the rates that Mr. Mitchell has proposed in this  
5       proceeding, which set of rates do you think would cause  
6       the greater degree of palletization and copalletization?

7               A       Obviously the rates being proposed in this  
8       case because it applies to all mailers, whereas the  
9       copal case applies to a very limited number of mailers.

10              Q       Mr. Bergin also got into the subject of  
11       transportation with you, and the subject of four-year  
12       highway contracts came up.

13              In your view, is there any reason why the  
14       Postal Service has to have four-year long highway  
15       surface transportation contracts?

16              A       I don't know why it has, but that has been a  
17       tradition.

18              Q       But if they were shortened, then the Postal  
19       Service would have more flexibility with respect to its  
20       transportation?

21              A       Certainly.

22              Q       Mr. Begin also expressed some concern about  
23       the suffering for some of the publications that he  
24       represents.

25              Now, your testimony analyzed Postal Service

1 costs and compared them with the mailing characteristics  
2 of periodicals mailed, did it not?

3 A Yes. Yes.

4 Q And you came up with a set of additional cost  
5 drivers for sacks, --

6 A Sacks, pallets, and bundles.

7 Q -- bundles and pallets?

8 To the extent that mailers continue to use  
9 sacks for whatever reason or don't go through the  
10 business judgment process of changing their behavior to  
11 take advantage of some of the rate incentives that we  
12 have proposed, isn't it the case that that mailer is  
13 simply being required to pay for the cost that his  
14 periodicals causes the Postal Service to incur?

15 A Exactly.

16 MR. BURZIO: That's all I have, Mr. Chairman.

17 CHAIRMAN OMAS: Thank you, Mr. Burzio.

18 Are there any additional questions? Mr.  
19 Straus?

20 RE-CROSS-EXAMINATION

21 BY MR. STRAUS:

22 Q Mr. Stralberg, just to be clear, the list of  
23 the 29, that was the hot pubs sign you saw recently in  
24 Charlotte, not the one we saw jointly?

25 A I did not go to Charlotte. Someone sent me a

1 list from Charlotte, the list that currently applies in  
2 Charlotte.

3 Q So the 29 is the current list?

4 A It's a current list.

5 Q And the one we saw last time was shorter,  
6 wasn't it?

7 A It was current then. Yes.

8 Q But there were fewer publications?

9 A I don't remember, but I think it was.

10 Q You said there were four, or I think your  
11 counsel said there were four, Time Warner publications  
12 on the list.

13 Other than *Time For Kids*, which is a special  
14 case going to schools, does that mean that all four Time  
15 Warner weeklies are on the list?

16 A *Time*, *Sports Illustrated*, *People*, and I  
17 believe *Entertainment Weekly*. Yes, they're on there.

18 Q So that would be four out of four?

19 A That's four out of four.

20 Q And Time has what, about 38 total  
21 publications?

22 A Well, it depends on how you count them.

23 Q Between 35 and 40?

24 A Somewhere, yes. You could count them  
25 different ways.

- 1 Q Did you see *Auto Week* on that list?
- 2 A *Auto Week*? No, I don't see it on there.
- 3 Q How about *Women's Wear Daily*?
- 4 A No.
- 5 Q *Daily Variety*?
- 6 A No.
- 7 Q *Ad Age*?
- 8 A How long are you going to go on?
- 9 Q One more.
- 10 A No.
- 11 Q *Ad Week*?
- 12 A *Ad Week*? No.
- 13 Q And those are all weeklies or dailies
- 14 published by ABM members, are they not?
- 15 A I think you better testify about that.
- 16 Q Do you recall how many ABM publications were
- 17 on the list proposed that was presented to you and to
- 18 Mr. Gordon?
- 19 A How many ABM publications?
- 20 Q Yes.
- 21 A No, I don't really know how many of them. I
- 22 think the Fairchild publications might be considered
- 23 ABM.
- 24 Q No, no, no. We asked Mr. Gordon.
- 25 A Yes. That list?

1 Q That list.

2 A Yes. If you had at least sorted it  
3 alphabetically maybe I would have looked at it, but I  
4 didn't.

5 Q Would you accept that there are more than  
6 1,000 publications on that list?

7 A I won't accept it, but I'll believe it.

8 MR. STRAUS: Okay. That's all I have. Thank  
9 you.

10 CHAIRMAN OMAS: Thank you Mr. Straus.

11 Mr. Bergin, do you have anything?

12 MR. BERGIN: Nothing further.

13 CHAIRMAN OMAS: Okay. Thank you.

14 Mr. Stralberg, that completes your testimony  
15 here today. We appreciate your contribution to the  
16 record. Thank you very much.

17 THE WITNESS: Thank you.

18 CHAIRMAN OMAS: The presiding officer's  
19 ruling, as I mentioned earlier, C2004-1/3, indicates  
20 that parties unable to cross-examine Witness Stralberg  
21 on discovery responses provided at June 22 would be  
22 given an opportunity to ask that Witness Stralberg  
23 reappear to respond to questions related to those  
24 answers.

25 Does any participant know at this time that

1 they will request Witness Stralberg's appearance?

2 (No response.)

3 CHAIRMAN OMAS: Mr. Burzio, will you please  
4 determine whether Witness Stralberg would be available  
5 during the week of July 19 through 23 should it be  
6 necessary to recall him?

7 MR. BURZIO: I will find out.

8 CHAIRMAN OMAS: Thank you.

9 As I stated previously, I will allow  
10 participants until Tuesday, July 6, to file requests  
11 seeking Witness Stralberg's reappearance.

12 Witness Stralberg, we thank you for your  
13 appearance here today again. Subject to any such  
14 motion, you are excused.

15 (Witness excused.)

16 CHAIRMAN OMAS: This concludes today's  
17 hearing. We will reconvene tomorrow morning at 9:30  
18 when we will receive testimony from Time Warner, et al.  
19 with Witness Schick.

20 Thank you very much. Have a nice afternoon.

21 (Whereupon, at 12:36 p.m. the hearing in the  
22 above-entitled matter was adjourned, to reconvene at  
23 9:30 a.m. on Wednesday, June 30, 2004.)

24 //

25 //



REPORTER'S CERTIFICATE

DOCKET NO.: C2001-1

CASE TITLE: Complaint of Time Warner Inc. et al.

HEARING DATE: 6-29-01

LOCATION: Washington DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: 6-29-01

*Mason L. L...*

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